INTERCO Annual Report -- 1992
America's Corporate Foundation; 1992; ProQuest Historical Annual Reports
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INTERCO *Calendar 1992 Annual Report*

Broyhill

Lane

INTERCO

FLORSHEIM

CONVERSE

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TABLE OF *Contents*

INTERCO Today ONE

Financial Highlights TWO

Letter to Our Shareholders THREE

Operating Groups SIX

Financial Review SIXTEEN

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INTERCO today is the second largest manufacturer of furniture and one of the leading manufacturers and retailers of footwear in the United States. INTERCO's operations are conducted through two groups, the Furniture Group and the Footwear Group.

The Furniture Group, comprised of Broyhill Furniture Industries, Inc. and The Lane Company, Incorporated, is a major manufacturer and distributor of quality furniture and home furnishings. The group's 36 factories, distribution centers and consolidation warehouses are located mainly in the southeastern part of this country.

The Footwear Group, comprised of The Florsheim Shoe Company and Converse Inc., styles, manufactures and distributes men's footwear and a broad range of athletic footwear in the United States and throughout the world as well. There are 11 factories and distribution centers in operation. The group also operates 383 retail shoe stores and outlets in the United States, as well as in Australia and Canada.

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FINANCIAL *Highlights*[1]

(In thousands, except per share, employee and statistical data)	FIVE MONTHS ENDED DECEMBER 31, 1992
From operations:	
Net sales	$ 662,274
Net earnings	21,326
As a percent of net sales	3.2%
Per share of common stock:	
Net earnings	$0.43
Financial condition at year end:	
Working capital	$ 503,875
Current ratio	3.9 to 1
Total assets	1,177,537
Total long-term debt	615,257
Shareholders' equity	293,114
Book value per common share	$5.86
Shares outstanding at year end:	
Common stock	50,000
Number of employees	19,750

[1]*Since August 3, 1992 effective date of Plan of Reorganization.*

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On August 3, 1992, approximately 18 months after filing for reorganization under Chapter 11, INTERCO's plan of reorganization became effective and the company emerged from bankruptcy with a fresh start. This relatively rapid turnaround was made possible by the hard work and dedication of a large and diverse group of people including company employees, creditors, various advisors and legal counsel, as well as the Bankruptcy Court. This unusual cooperation permitted the company to emerge with a capital structure which is compatible with the earnings and cash generation potential of its four outstanding operating companies. The company's total debt on December 31, 1992, following two payments totaling $25 million which were made ahead of schedule, approximated $615 million, while the market value of the shareholders' equity was approximately $469 million at year end.

Our focus during the past few years has been to develop a viable plan of reorganization, to dispose of a number of companies that had been identified as discontinued operations and to position our four remaining operating companies so that they were prepared to move ahead aggressively in their various markets. We were successful in all of these areas. The plan of reorganization is a good one. The discontinued operations have been disposed of and, most importantly, the operating companies are in first-class shape. We were able to strengthen their balance sheets by disposing of unwanted or unprofitable assets and, at the same time, we installed a gross profit management concept in each of the companies that gives us the opportunity to continue to improve our market position and our returns as we move forward. Proof of the initial success of this effort can be seen in the performance of INTERCO throughout the past year. The balance sheet at year end was stronger than projected as were the sales and profit performances of the operating companies. Their results in most cases were better than those of their competitors in an economic environment that was challenging to say the least.

As we move into 1993 and the start of our new fiscal year, the company's emphasis has now shifted to growing our businesses and achieving improvement in our market shares as well as our profit percentages. Broyhill and Lane in the furniture industry and Florsheim and

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Converse in the footwear industry represent four outstanding consumer brand names. We have budgeted to increase our expenditures in the advertising and promotional area to drive these brands and, internally, we have developed a series of programs at each of the four companies to develop new products, to explore new markets and to grow their businesses with new and existing customers in an aggressive and effective way. These programs are in existence and showing encouraging results as we move into 1993.

RESULTS OF OPERATIONS For a number of reasons, we have changed our fiscal year to a calendar year basis starting with 1993. Therefore, the comparisons which we make for 1992 are on a ten month basis beginning March 1, 1992 and ended December 31, 1992.

INTERCO's sales and earnings for the ten months of 1992 were ahead of plan. Net sales of the furniture companies, Broyhill and Lane, totaled $751.6 million, an increase of 10.2 percent over last year's comparable period. Earnings before interest expense, income taxes, depreciation and amortization, and other income and expense ("EBITDA") reached $83.4 million, a gain of 9.9 percent. Incoming orders in 1992 grew at approximately 10.0 percent. At year end, there appeared to be a reasonable pickup in the furniture business in general.

Our footwear business achieved sales of $514.3 million for the ten months of 1992, compared to $521.5 million for the comparable period. This sales decline reflected the fact that Florsheim had shrunk its sales base by selling several operations and closing a number of unprofitable retail shops during calendar 1991. EBITDA was $35.6 million, compared to $31.8 million for the comparable period. These results reflected the improvement in profit margin we expect to see continue for the footwear operations.

Overall, sales and net earnings during the last five months of the year following the emergence from bankruptcy were higher than estimated in our plan of reorganization. These exceeded the plan by approximately $26 million and $8 million, respectively. Balance sheet comparisons were also favorable to the plan, with cash flow above estimate. We are pleased the company has commenced its "fresh start" on a positive note.

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BOARD OF DIRECTORS AND STOCK OWNERSHIP As a result of its position as a major creditor of the company during bankruptcy and its agreement with the bank group to purchase a portion of new common stock in exchange for cash and debt, Apollo is now the controlling shareholder of the corporation, owning more than 60 percent of the common equity. Apollo played an important and constructive role in facilitating the final plan of reorganization.

Concurrent with INTERCO's reorganization, a new Board of Directors was appointed. The Board now consists of seven directors who are members of Apollo, three directors who were previously bondholders of the corporation and three directors from the previous INTERCO Board. Several meetings have been held, and the new Board is working together in a very positive way to assure the company will move forward with its growth plans.

We are delighted with this outstanding group of new directors. At the same time, we thank the previous INTERCO Board for standing with the company through its very trying bankruptcy proceedings and guiding its emergence in a way more favorable than most imagined could be accomplished.

CONCLUSION It is customary to thank customers, suppliers, employees and directors for their support during the year. In our case, this is much more than appropriate. The support that all of these groups gave to INTERCO over the past several years has been nothing short of unbelievable. Despite our problems, I can recall no single instance where we did not get complete and wholehearted cooperation from all of these people. For that, we are thankful and will be forever indebted to them.

Sincerely,

R B Loynd

RICHARD B. LOYND
Chairman of the Board
and Chief Executive Officer

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*I*NTERCO is the second largest manufacturer of furniture in the United States. Its two operating companies, Broyhill Furniture Industries, Inc. and The Lane Company, Incorporated, combine strong brand names with extensive manufacturing, distributing and marketing capabilities.

BROYHILL FURNITURE INDUSTRIES, INC.

THE LANE COMPANY, INCORPORATED

*B*ROYHILL'S AND LANE'S BROAD RANGES OF QUALITY FURNITURE AND HOME FURNISHINGS HAVE EARNED LEADING POSITIONS IN THEIR MARKET SEGMENTS.

BROYHILL FURNITURE INDUSTRIES, INC. began operations in 1926 as The Lenoir Chair Company and became part of INTERCO in 1980. Its outstanding product quality, widespread brand recognition, and strong distribution capability make Broyhill a recognized leader in medium-priced bedroom, dining room, living room, upholstered and occasional furniture.

Broyhill was one of the first companies to introduce mass production techniques to the furniture industry and is one of the lowest cost producers of furniture.

Broyhill's products are sold primarily through about 3,400 retail furniture dealers. Broyhill's marketing efforts target dealers through its Showcase Gallery and Independent Dealer programs and consumers through materials emphasizing that Broyhill offers "a good product at a good price."

THE LANE COMPANY, INCORPORATED was founded in 1912 by E. H. Lane as a maker of cedar chests. Internal growth and acquisitions have made Lane one of the nation's largest manufacturers and distributors of medium- to high-priced furniture. The company became a part of INTERCO in 1987. Today, Lane's eight independent divisions offer a broad range of more than 3,000 items for home and office, including wood, metal and upholstered furniture, reclining furniture and related components. Its historical product mix is approximately 30 percent wood furniture, 50 percent reclining products and 20 percent upholstery and other products.

Lane's furniture products are distributed nationally to retail outlets, including department stores, leading chain stores, individual retail furniture stores and decorating studios.

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INTERCO is one of the largest manufacturers and retailers of footwear in the United States. Each of its well-known brands is among the leaders in its market segment—Florsheim in men's quality dress and casual footwear, and Converse in athletic footwear.

THE FLORSHEIM SHOE COMPANY

CONVERSE INC.

*W*ORLDWIDE REPUTATIONS FOR QUALITY AND VALUE AND BROAD PRODUCT LINES POSITION FLORSHEIM AND CONVERSE WELL FOR FUTURE GROWTH.

THE FLORSHEIM SHOE COMPANY began operations in 1892 and became part of INTERCO in 1952. The Florsheim brand is recognized around the world for quality and value, with an estimated 20 percent share of the middle- to upper-priced men's quality dress and dress-casual footwear market in the United States. Florsheim products are distributed in the U.S. and internationally through approximately 5,000 independent dealer locations and 360 company-owned retail stores.

Florsheim is highly focused as a manufacturer, wholesaler and retailer of men's quality footwear. Strengths include its valuable brand name, broad product line and extensive distribution structure.

CONVERSE INC. is a fully integrated manufacturer and distributor of a broad line of athletic footwear. It began operations in 1908, and sold its first branded athletic shoe three years later. It joined INTERCO in 1986. Converse's assets include well-known brand names, substantial market positions with performance basketball shoes and the Chuck Taylor® All Star® canvas shoes, and a strong position as a provider of basketball shoes to players and teams in the National Basketball Association, the National Collegiate Athletic Association, and to high school athletic teams.

Converse is building on its core product base by selectively targeting such market niches as children's footwear and shoes for tennis and field sports.

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Broyhill®

*B*royhill has over 6,500 craftspeople dedicated to designing, manufacturing and delivering one of the most comprehensive quality product lines in the furniture industry. Products include bedroom, dining room, upholstery, occasional tables, wall systems, curios and entertainment centers.

With over 5 million square feet of manufacturing capacity, state-of-the-art computer-controlled equipment and the vision of a consumer-focused marketer, Broyhill is uniquely positioned to address the mid-priced consumer's need for high quality furniture.

Broyhill continues to build on that position by increasing its marketing thrust toward the consumer. In 1992, consumer awareness of Broyhill was broadened and strengthened by an enhanced advertising message that focused on targeted consumer needs.

Broyhill products are recognized as providing the best value in the furniture industry. This reputation has been built through a state-of-the-art quality control program, sophisticated cost reduction and control systems and a styling approach that has kept its products fresh and exciting.

*S*TYLING WITH VERSATILITY: ENTERTAINMENT ARMOIRES COMBINE POPULAR CASUAL STYLING WITH SPACE FOR TWO VCRS ABOVE AND STORAGE FOR VIDEO TAPES, GAMES OR CLOTHING BELOW.

*E*CLECTIC CHARM: FONTANA'S COMBINATION OF THE BEST ELEMENTS OF EUROPEAN AND AMERICAN CLASSICS HAVE MADE IT A STRONG ENTRY IN THE AMERICAN CASUAL CATEGORY AND ONE OF THE MOST POPULAR DESIGNS IN BROYHILL'S HISTORY.

*E*ASTERN INSPIRATION: EVOKING AN IMPORTANT PERIOD IN CHINA'S HISTORY, MING DYNASTY PIECES INCORPORATE HAND-FINISHED WOOD BLENDING MAPLE, CHERRY, OLIVE AND ASH BURL VENEERS.

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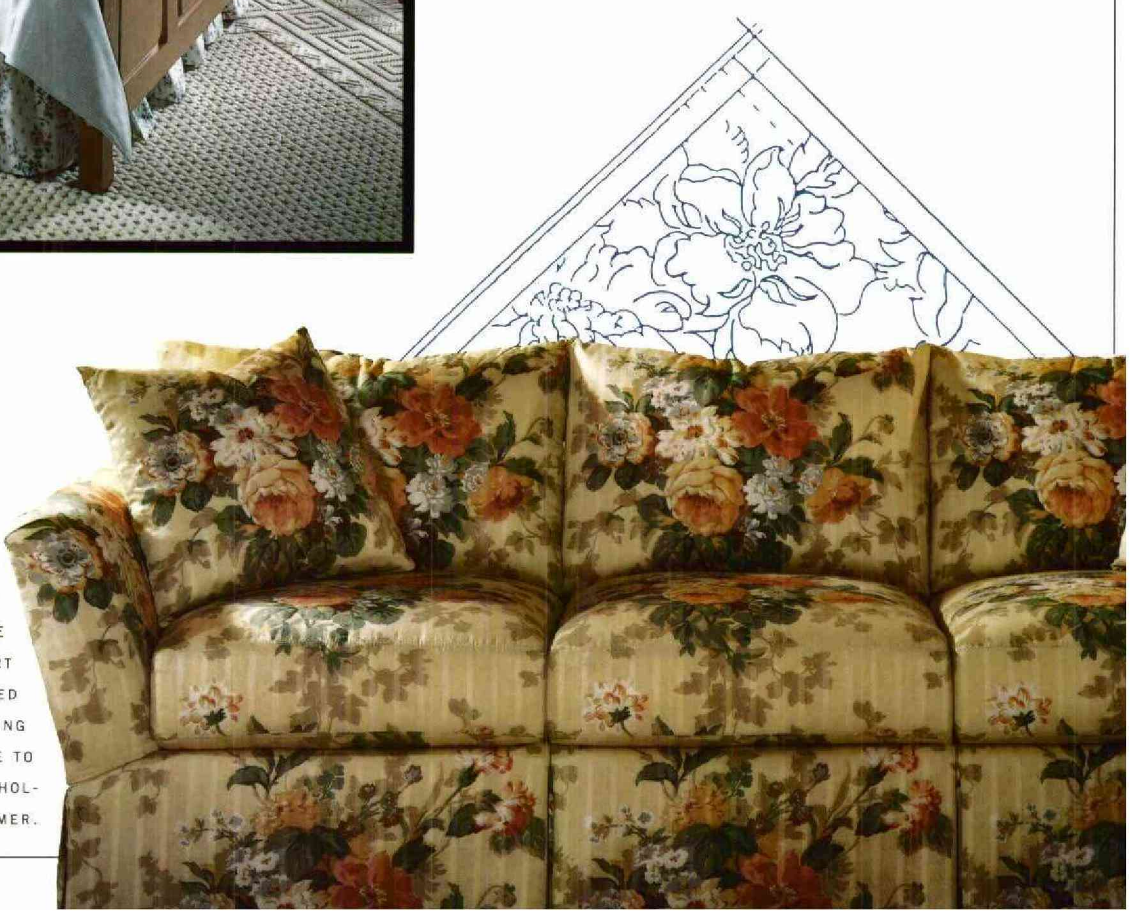
*F*ABRIC OF CHOICE: BROYHILL'S FABRIC SELECTION INCLUDES 400 PATTERNS — FROM WOVEN STRIPES, TAPESTRIES AND CHENILLES TO ELEGANT PRINTED JACQUARDS— IN CONSTANTLY EVOLVING FASHION COLORS.

*Q*UIET ELEGANCE: QUEEN ANNE STYLING IS A MAINSTAY OF TRADITIONAL DECORATING AND BROYHILL'S CHERRY HILL COLLECTION HAS BEEN A PERENNIAL FAVORITE FOR ITS 18TH CENTURY GRACE AND STYLE.



*U*NCOMPROMISING QUALITY: AT HIGHLAND HOUSE, SUPERIOR ATTENTION TO DETAIL AND THE TRADITIONAL COMFORT OF 8-WAY, HAND-TIED CONSTRUCTION BRING ELEGANCE AND STYLE TO THE HIGHER-END UPHOLSTERY CUSTOMER.

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*T*REASURE CHEST: CEDAR CHESTS WERE LANE'S FIRST PRODUCT LINE AND HAVE BEEN CONTINUOUSLY PROMOTED AND NATIONALLY ADVERTISED IN AMERICA'S LEADING CONSUMER MAGAZINES. THE BOUNTIFUL IS ONE OF THE MOST POPULAR OF LANE'S MORE THAN 100 STYLES OF CEDAR CHESTS.

*S*OUTHERN TRADITION: HICKORY CHAIR'S COMPLETE LINE OF WOOD AND UPHOLSTERED FURNITURE FEATURES THE JAMES RIVER COLLECTION OF 18TH CENTURY PLANTATION REPRODUCTIONS, WHICH CELEBRATED ITS 50TH ANNIVERSARY LAST YEAR.

*M*OVING AHEAD: ACTION ENTERED THE RAPIDLY EXPANDING MOTION FURNITURE FIELD IN THE FALL OF 1990 AND HAS SEEN VOLUME IN THIS CATEGORY GROW DRAMATICALLY.

Action Lane

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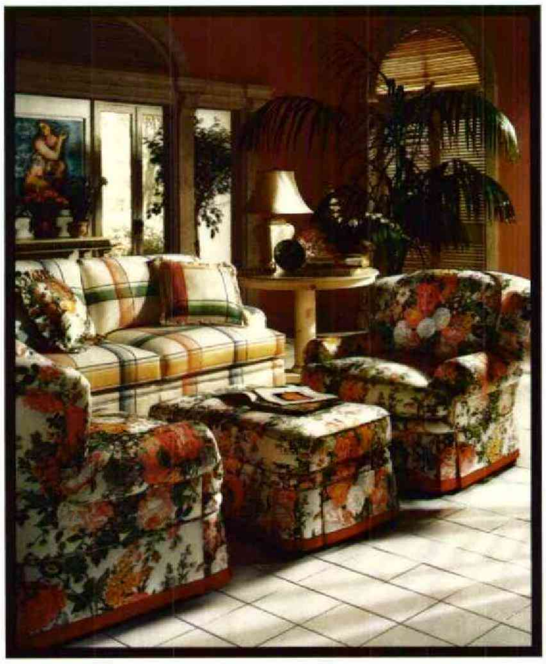
*O*UTDOOR STYLE: THE WEATHERMASTER LINE OF INDOOR/OUTDOOR WICKER IS THE MOST RECENT ADDITION TO VENTURE'S SUCCESSFUL COLLECTION OF WICKER AND RATTAN FURNITURE.

*A*UTHENTIC CHARM: THE AMERICA COLLECTION OF REPRODUCTIONS AND ADAPTATIONS OF COUNTRY ANTIQUES IS AUTHENTICATED BY NEW YORK'S MUSEUM OF AMERICAN FOLK ART. THE COLLECTION HAS BEEN FEATURED EDITORIALLY IN MANY NATIONAL MAGAZINES.

*R*ECLINE IN STYLE: ACTION INDUSTRIES IS ONE OF AMERICA'S LARGEST RECLINER MANUFACTURERS. THE COMPANY RECENTLY INTRODUCED STYLES TO APPEAL TO MORE FASHION-CONSCIOUS CONSUMERS.



*C*USTOM-TAILORED: PEARSON'S "INDUSTRY NICHE" IS CUSTOM-ORDER UPHOLSTERY DISTINGUISHED BY EXCEPTIONAL TAILORING AND A WIDE ASSORTMENT OF FABRICS.

Furniture GROUP

Lane®

*F*ounded in 1912, Lane produced only cedar chests for 39 years. With this product and continuous national advertising, Lane built a brand name that's the envy of the industry. In 1951, Lane began adding other categories of Lane-branded furniture and, in 1967, embarked on an acquisition program that introduced upholstered products to its already strong wood lines. Today Lane is the industry's most diversified home furnishings resource; each division has its own niche and each is nationally advertised. Product quality and diversification, together with well-known brand names, are the strength of The Lane Company.

Lane's divisions include: Action Industries, recliners and motion upholstery; Royal Development Company, recliner mechanisms; Hickory Chair Company, 18th Century and designer wood and upholstered furniture; Hickory Business Furniture, wood and upholstered business furniture; The Pearson Company, custom-tailored upholstered furniture; Venture, wicker and rattan furniture; Lane Division, cedar chests, occasional tables, dining and bedroom furniture and accents; and Lane Upholstery, contemporary and traditional upholstered furniture.

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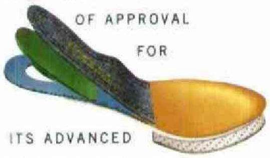
FLORSHEIM®

*S*ince the very first pair of Florsheim shoes was made 100 years ago, the Florsheim name has represented quality and value. With today's consumer placing even greater emphasis on value, its unsurpassed quality and value position Florsheim to strengthen its role as the leading men's footwear manufacturer.

Entering its second century of footwear leadership, Florsheim is committed to lead in both the dress and casual shoe categories with an array of products that makes it a single source of footwear for all of its customers.

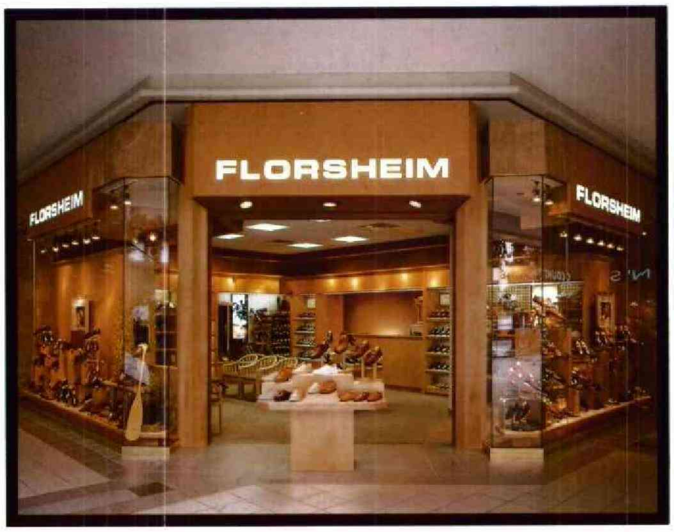
The Florsheim Comfortech line provides the most comfortable shoes available in a broad range of dress and casual styles. The relaxed looks of the Florsheim Outdoorsman line reflect the rugged casual styles of the Nineties. The Florsheim Imperial line has been revitalized with new patterns that give its customers a comfort alternative in a traditional dress shoe. The classic looks and expert craftsmanship of the Florsheim Royal Imperial line offer the discriminating consumer the consummate dress shoe.

Florsheim's collection of great looks fulfills all the footwear needs of today's man. Continued innovation in product development and strong marketing support keep Florsheim a step ahead.



GROWTH LEADER: HIGH-QUALITY MATERIALS, A WIDE RANGE OF STYLES AND THE AMERICAN PODIATRIC MEDICAL ASSOCIATION'S SEAL OF APPROVAL FOR ITS ADVANCED COMFORT SYSTEM HAVE MADE COMFORTECH FLORSHEIM'S FASTEST GROWING PRODUCT LINE.

AFFORDABLE QUALITY: THE CORE OF THE FLORSHEIM BUSINESS HAS ALWAYS BEEN THE AFFORDABLE DRESS SHOE. THE PARMA IS AN EXAMPLE OF HOW FLORSHEIM BLENDS QUALITY, VALUE AND STYLE.



THE PREDOMINANT MEN'S SHOE RETAILER: 360 RETAIL OUTLETS GIVE FLORSHEIM A UNIQUE DISTRIBUTION ADVANTAGE OVER OTHER FOOTWEAR MANUFACTURERS. FLORSHEIM PRODUCT IS REPRESENTED FROM DRESS TO CASUAL IN AN INVITING ATMOSPHERE THAT CONSUMERS EQUATE WITH THE QUALITY PRODUCT THEY EXPECT FROM FLORSHEIM.

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*C*omfortable elegance: The Florsheim Comfortech Imperial brought new excitement to the upper-end dress shoe market when it was introduced in 1992. By combining the classic good looks of the Florsheim Imperial shoe with enhanced comfort features, Florsheim is able to offer consumers "The Perfect Dress Shoe".

*O*utdoors in style: Today's man has a dedication to leisure unlike any previous generation. Florsheim answers with a full line of rugged good-looking outdoors shoes—Florsheim Outdoorsman.

*A*n American tradition: as celebrated in the 1992 Florsheim advertising campaign, "Florsheim for America," Florsheim is truly..."Timeless Quality."

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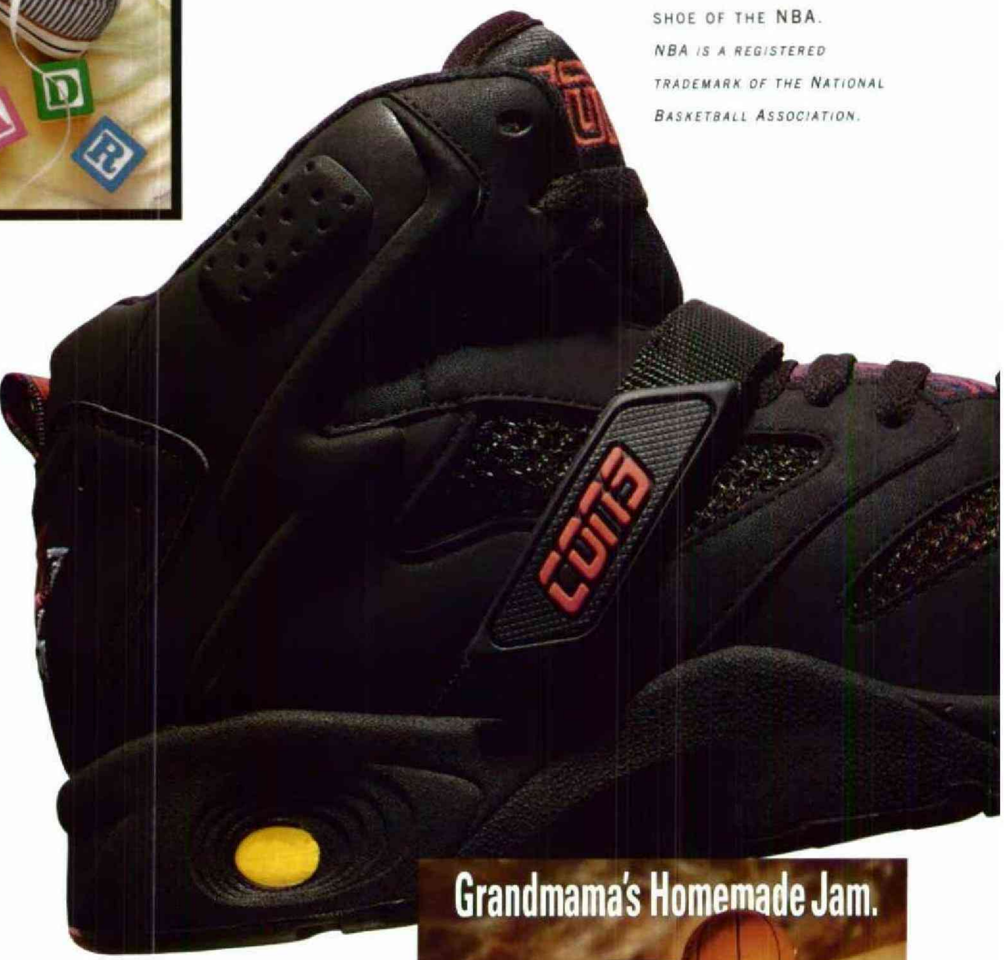
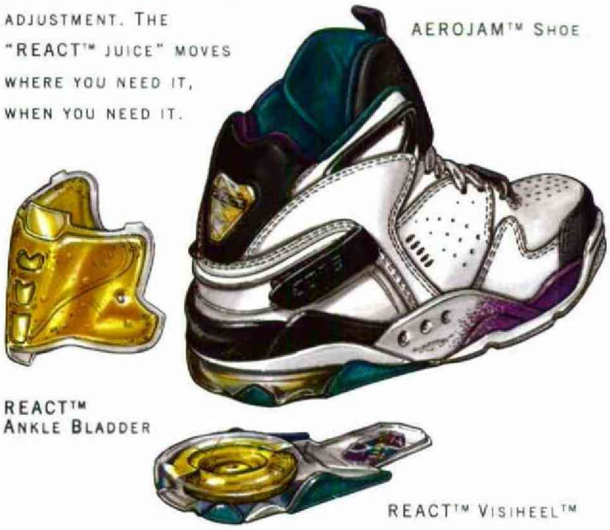
*P*ROUD HERITAGE: FROM THE TRADITION OF SET SHOTS AND THE CHUCK TAYLOR® TO THE MODERN ERA OF THE FAST BREAK AND THE RUN 'N SLAM™, CONVERSE HAS BEEN ASSOCIATED WITH THE BEST IN BASKETBALL AND IS PROUD TO BE THE OFFICIAL SHOE OF THE NBA.

NBA IS A REGISTERED TRADEMARK OF THE NATIONAL BASKETBALL ASSOCIATION.



*K*ID STUFF: CONVERSE OFFERS AN EXTENSIVE LINE OF CHILDREN'S FOOTWEAR IN BOTH THE PERFORMANCE AND ATHLEISURE CATEGORIES.

*A*DVANCED TECHNOLOGY: DESIGNED AND DEVELOPED IN THE CONVERSE BIOMECHANICS LABORATORY AND BY THE CONVERSE ADVANCED TECHNOLOGY GROUP, REACT™ IS THE FIRST TECHNOLOGY ON THE MARKET THAT SIMULTANEOUSLY PROVIDES CUSHIONING, STABILITY, SUPPORT AND CUSTOM FIT WITHOUT REQUIRING USER ADJUSTMENT. THE "REACT™ JUICE" MOVES WHERE YOU NEED IT, WHEN YOU NEED IT.



AEROJAM™ SHOE

REACT™ ANKLE BLADDER

REACT™ VISIHEEL™

*S*LAM DUNK LARRY JOHNSON STYLE, NBA'S ROOKIE OF THE YEAR: IF YOU HAVEN'T HEARD OF GRANDMAMA™ YET, IT'S TIME FOR AN INTRODUCTION. SHE'S THE MEANEST OLD WOMAN EVER TO WEAR BASKETBALL SHOES—AND SHE'S BEEN SEEN IN PRINT AND ON TV ALL OVER THE COUNTRY. STAY TUNED WHILE GRANDMAMA™ WHIPS UP ANOTHER RECIPE FOR SUCCESS IN 1993.

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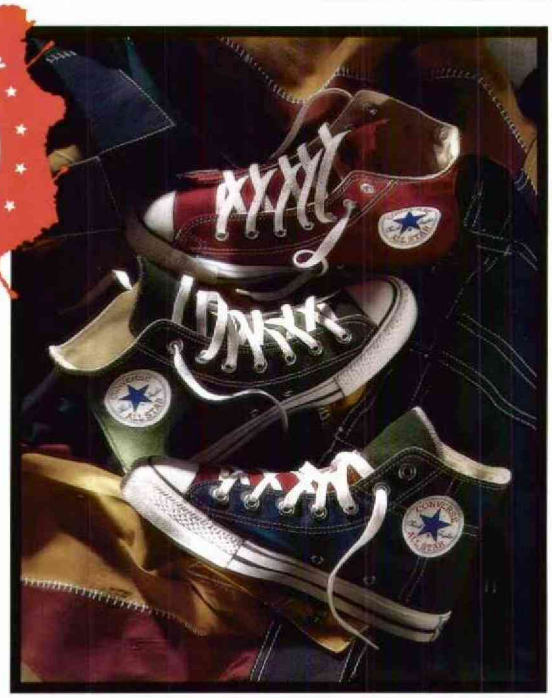
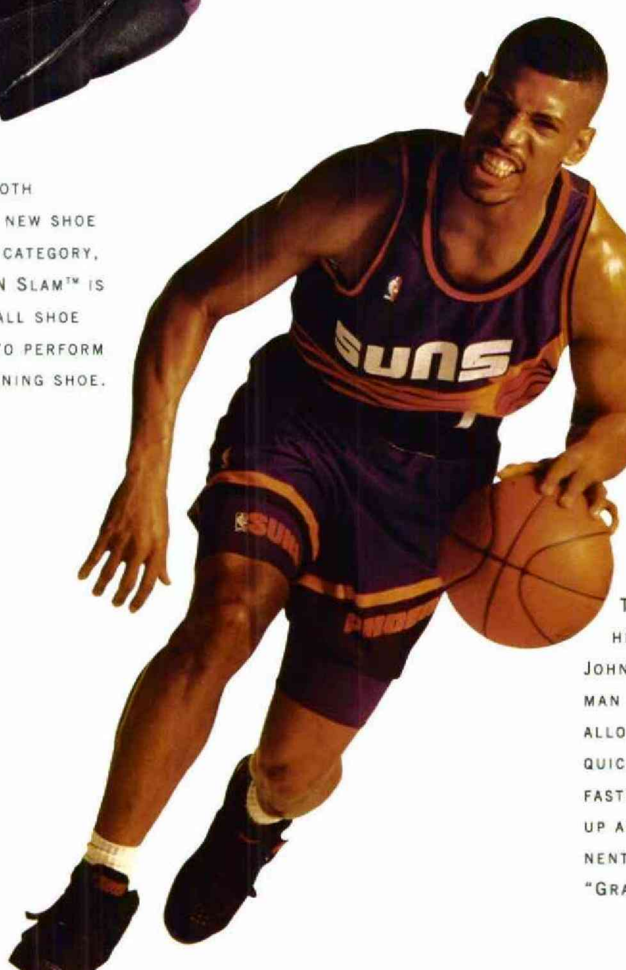


*D*IAMOND ANNIVERSARY: CONVERSE'S CHUCK TAYLOR® LINE JUST CELEBRATED ITS 75TH BIRTHDAY. WITH OVER 500 MILLION PAIRS SOLD WORLDWIDE SINCE ITS INTRODUCTION IN 1917, CHUCK TAYLOR® IS STILL GOING STRONG.

*L*ACE-UP LEGEND: TODAY, MUCH MORE THAN THE MOST FAMOUS BASKET-BALL SHOE OF ALL-TIME, THE CHUCK TAYLOR® ALL STAR® IS A FASHION STATEMENT FOR WOMEN AND MEN AROUND THE WORLD.

*B*EST OF BOTH WORLDS: A NEW SHOE FOR A NEW CATEGORY, THE RUN 'N SLAM™ IS A BASKETBALL SHOE DESIGNED TO PERFORM LIKE A RUNNING SHOE.



*S*TOP AND GO: THE "REACT™ JUICE" HELPS MAKE KEVIN JOHNSON THE QUICKEST MAN IN THE NBA, ALLOWING KJ TO CUT QUICKER AND STOP FASTER—EVEN WHEN HE'S UP AGAINST AN OPPONENT AS TOUGH AS "GRANDMAMA™."

Footwear GROUP

CONVERSE®

*C*onverse, the largest U.S. manufacturer of athletic footwear, is the official shoe of the National Basketball Association (NBA), USA Basketball, the World Association of Basketball Coaches (WABC), the Women's Basketball Coaches Association (WBCA) and the Federation Internationale de Basketball (FIBA).

1992 was a great year for Converse. Breakthrough advertising, innovative product design and aggressive marketing have made Converse a company on the move.

The "Grandmama™" advertising campaign dramatically increased consumer awareness of Converse basketball shoes, while the 75th Anniversary and "Happy Birthday Chuck" ad campaigns have pushed the Chuck Taylor® All Star® toward record order levels.

Showstopping design and REACT™ technology are making Converse a leader in the basketball shoe category, creating new demand among basketball players for the shoes with the "REACT™ Juice."

Larry Johnson and Kevin Johnson are setting the pace for the NBA in Converse basketball shoes, and colleges and high schools across the country are noticing...and picking up the shoes with the "REACT™ Juice" for their players.

Unbeatable products and strong marketing poise Converse to take off in 1993.

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TABLE OF *Contents*

Management's Discussion and Analysis 17

Consolidated Financial Statements 23

Notes to Consolidated Financial Statements 27

Independent Auditors' Report 46

Five Year Consolidated Financial Review 47

Board of Directors and Officers 48

Investor Information 49

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Results of Operations

On January 24, 1991, INTERCO INCORPORATED and its domestic subsidiaries (the "Company") filed petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Missouri (the "Court"). On June 26, 1992, the Court approved and confirmed the Amended Joint Plan of Reorganization of the Company (the "Plan") and the order was docketed on June 30, 1992. The Company emerged from Chapter 11 effective with the beginning of business on August 3, 1992. In general, the Plan provided for resolution of all claims against the Company as of January 24, 1991, the Chapter 11 filing date, as well as resolution of certain legal disputes, in exchange for cash, new indebtedness and/or new common equity securities. The distribution record date for determining those creditors to whom distributions were made was June 30, 1992. The Plan provided for no distributions to the holders of the Company's Series D Preferred Stock, Series E Preferred Stock or common stock, and all outstanding shares of those equity securities were cancelled as of the effective date of the Plan.

As of August 2, 1992, in accordance with the AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," the Company was required to adopt "fresh-start" reporting and reflect the effects of such adoption in the financial statements for the five months ended August 2, 1992. Accordingly, a vertical black line is shown to separate post-emergence operations from those prior to August 3, 1992 in the consolidated financial statements since they have not been prepared on a comparable basis.

The Company manages four operations consisting of Broyhill Furniture Industries, Inc. and The Lane Company, Incorporated in the furniture segment and The Florsheim Shoe Company and Converse Inc. in the footwear segment.

For purposes of this discussion, calendar year 1992 refers to the two five month periods ended August 2, 1992 and December 31, 1992; fiscal year 1992 refers to the 12 month period ended February 29, 1992, and fiscal year 1991 refers to the 12 month period ended February 23, 1991.

Net Sales

Net sales of the operating companies, by segment, for the last three years were as follows:

(In millions)	CALENDAR YEAR 1992		FISCAL YEAR 1992	FISCAL YEAR 1991
	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992	YEAR ENDED FEBRUARY 23, 1991
Furniture segment	$394.9	$356.7	$ 819.3	$ 786.5
Footwear segment	267.4	246.9	652.4	652.7
	$662.3	$603.6	$1,471.7	$1,439.2

Furniture segment sales for the ten months ended December 31, 1992, were $751.6 million, representing an increase of 10.2% over the comparable (ten-month) period last year. Furniture segment sales increased 4.2% in fiscal year 1992, following a decline of 1.6% in fiscal year 1991. Broyhill and Lane each realized sales increases in calendar year 1992. New product offerings and marketing programs at both furniture companies continued to be well received with order levels for incoming business reflecting improved industry conditions as the year progressed.

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For the ten months ended December 31, 1992, footwear segment sales were $514.3 million representing a decrease of 1.4% from the comparable period a year ago. Footwear segment sales in fiscal year 1992 were about even with those in fiscal year 1991 which had declined 3.3% from the prior year. The sales decline in calendar year 1992 occurred at Florsheim and reflects the disposal of its retail business in Mexico, its Bowen Shoe operation and the closing of a number of other retail stores during fiscal year 1992. Converse's sales increased during calendar year 1992, helped by expanded advertising and promotion programs. Order rates at the end of calendar year 1992 at Florsheim and Converse indicated improving trends although weak European economies continued to hinder overseas results. For fiscal year 1992, Converse's sales increased; however, Florsheim's sales were impacted by the dispositions noted previously. The fiscal year 1991 sales decrease reflected the downsizing of the Florsheim women's wholesale operation and the closing of a number of Thayer McNeil Shoe Shops.

Earnings (EBITDA)

Upon emergence from Chapter 11, the Company was required to adopt fresh-start reporting which resulted in the revaluation of all assets and liabilities to reflect the Company's estimated reorganization value. As a result, gross profits and operating earnings subsequent to August 2, 1992, are not comparable with those of prior periods. However, earnings before interest expense, income taxes, depreciation and amortization, and other income and expense ("EBITDA") are comparable on both a segment and consolidated basis; consequently, the following management discussion and analysis of profitability begins at that point.

(In millions)	CALENDAR YEAR 1992		FISCAL YEAR	FISCAL YEAR
	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	1992 YEAR ENDED FEBRUARY 29, 1992	1991 YEAR ENDED FEBRUARY 23, 1991
Earnings before interest expense, income taxes, depreciation and amortization, and other income and expense:				
Furniture segment	$49.3	$34.1	$88.4	$90.9
Footwear segment	23.8	11.8	41.7	19.4
	73.1	45.9	130.1	110.3
Corporate administration	(3.6)	(3.8)	(8.6)	(9.5)
Miscellaneous expenses	(0.9)	(2.3)	(2.3)	(3.8)
Restructuring expenses	—	—	—	(21.2)
Subtotal	68.6	39.8	119.2	75.8
Depreciation and amortization	(13.7)	(13.2)	(32.2)	(33.7)
Earnings from operations	$54.9	$26.6	$87.0	$42.1

EBITDA of the combined operating segments for the ten months ended December 31, 1992, was 9.4% of net sales, as compared to 8.9% for the comparable (ten month) period last year. Furniture segment EBITDA for the ten months ended December 31, 1992, was 11.1% of net sales, equal to the same period last year. The EBITDA performance for the period reflects favorable factory utilization and sales of higher margin products which offset promotional pricing pressure. As a percent of net sales, footwear segment EBITDA for the ten months ended December 31, 1992, increased to 6.9%, compared to 6.1% last year. The improved EBITDA performance reflects the sale of higher margin products, less closeout merchandise requiring price promotion, the closing of unprofitable retail stores and increased royalty income.

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Fiscal year 1992 EBITDA of the combined operating segments was 8.8% of net sales, as compared to 7.7% for fiscal year 1991. Furniture segment EBITDA decreased to 10.8% of net sales, compared to 11.6% for the same period in the prior year, due mainly to product mix and underutilization of manufacturing facilities. Footwear segment EBITDA, as a percent of net sales, increased to 6.4%, compared to 3.0% in fiscal year 1991. The improved EBITDA performance resulted from benefits achieved from Converse's fiscal year 1991 restructuring program. Florsheim's fiscal year 1992 operating margins were down due to its restructuring program and disappointing retail traffic levels.

In fiscal year 1991, EBITDA of the combined operating segments was 7.7% of net sales, compared to 10.8% for the prior year. Furniture segment EBITDA decreased almost two percentage points to 11.6% of net sales due to the soft economic environment, particularly in the furniture industry. Footwear segment EBITDA decreased almost five percentage points to 3.0% of net sales. Florsheim's operating margins improved during fiscal year 1991; however, Converse's operating results were adversely impacted by restructuring of its manufacturing and distribution facilities.

Restructuring Expenses

In fiscal year 1991, the Company recognized restructuring expenses of $21.2 million related to the write-off of previously deferred debt issuance expenses and other costs associated with the restructuring efforts prior to the Chapter 11 filing.

Interest Expense

As of August 3, 1992, the Company, in connection with its emergence from bankruptcy and pursuant to its Plan of Reorganization, issued long-term debt (along with cash, common stock and warrants to purchase common stock) to settle liabilities subject to compromise. As a result, interest expense for the five months ended December 31, 1992, which totaled $24.0 million, was based on the Company's post-emergence debt structure. Interest expense for the five months ended August 2, 1992, which totaled $36.9 million, decreased from comparable periods the prior year due to a decline in interest rates.

Interest expense in fiscal year 1992 totaled $106.2 million, including $102.8 million relating to the Secured Credit Agreement and Medium Term Notes, and miscellaneous interest expense of $3.4 million. Interest expense decreased from fiscal year 1991 on the Secured Credit Agreement due primarily to lower interest rates offset partially by interest expense on letters of credit paid by the bank syndicate which were not reimbursed by the Company as a result of the Chapter 11 filing. The Company stopped providing interest expense on its debt obligations considered unsecured as of January 24, 1991.

Fiscal year 1991 interest expense totaled $259.5 million consisting of $120.5 million relating to the Secured Credit Agreement and the Medium Term Notes, $133.7 million on the Debentures, $2.0 million of debtor-in-possession financing costs, and miscellaneous interest expense of $3.3 million. Interest expense decreased from the prior year on the Secured Credit Agreement due primarily to a reduction in the amount outstanding under the asset sale bridge loan and lower interest rates.

Other Income (Expense), Net

Other income (expense), net for the ten months ended December 31, 1992, totaled $4.9 million, compared to $2.3 million and $1.9 million for the twelve months ended February 29, 1992 and February 23, 1991, respectively. Other income (expense), net for the five months ended December 31, 1992, consisted of interest income on short-term investments of $1.3 million, net gains on the disposal of assets of $1.8 million and other miscellaneous income and expense items of $1.8 million.

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Reorganization Items

Reorganization items consist of: adjustments to record assets and liabilities at fair value in connection with the Company's implementation of fresh-start reporting; and income, expenses and other costs directly related to the reorganization of the Company from the Chapter 11 filing date to its emergence from bankruptcy effective August 3, 1992. Additional information is presented in Note 5 of the Notes to Consolidated Financial Statements.

Income Tax Expense (Benefit)

For the five months ended December 31, 1992, the Company provided for income taxes totaling $14.6 million on earnings from continuing operations, before income taxes, totaling $35.9 million, producing an effective tax rate of 40.6%. An income tax benefit of $1.0 million was recorded for the five months ended August 2, 1992. For fiscal year 1992, income tax expense of $3.7 million was recorded on a loss from continuing operations, before income taxes, totaling $44.9 million. An income tax benefit of $64.1 million was recorded for fiscal year 1991 on a loss from continuing operations, before income taxes, totaling $215.5 million. The effective tax rates for all periods were adversely impacted by certain nondeductible expenses incurred, including a substantial portion of the expenses relating to the reorganization items, and provisions for state, local and foreign taxes. As of December 31, 1992, the Company had no net operating loss carryforwards available for utilization to reduce future income taxes.

Discontinued Operations

During the fiscal year ended February 25, 1989, the Company announced its intention to offer for sale the Apparel Manufacturing segment and the General Retail Merchandising segment. During calendar year 1992, the Company disposed of certain real estate which remained from the liquidation and/or sale of the two segments. These asset dispositions generated approximately $3.5 million in cash with no impact on results of operations. Net earnings (loss) from discontinued operations were $(0.3) million and $(25.0) million in fiscal years 1992 and 1991, respectively. Proceeds from the disposal of discontinued operations approximated $34.0 million in fiscal year 1992 and $64.0 million in fiscal year 1991. Management anticipates the net gains to be realized on the disposal of the remaining real estate held for sale (included in other assets) should at least equal the future carrying costs associated with the real estate.

Extraordinary Item — Gain on Extinguishment of Debt

Pursuant to the Plan of Reorganization, on the effective date the Company distributed cash, debt securities, common stock and warrants to purchase common stock in settlement of its liabilities subject to compromise. The book value of cash and securities distributed was approximately $1.1 billion less than the pre-petition liabilities, and the resultant gain was recorded as an extraordinary item.

Cumulative Effect of Accounting Changes

In connection with the adoption of fresh-start reporting, the Company was required to adopt SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions", as of August 2, 1992. The Company recognized the full amount of the initial liability upon adoption of SFAS No. 106. The cumulative effect of the change on retained earnings prior to the adoption of fresh-start reporting at August 2, 1992, was a charge of $23.6 million, net of income taxes of $13.2 million. In addition, the Company was required to adopt SFAS No. 109, "Accounting for Income Taxes", as of August 2, 1992. The cumulative effect of the change on retained earnings prior to the adoption of fresh-start reporting at August 2, 1992, was a charge of $1.9 million.

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Net Earnings (Loss) Per Common Share

Net earnings (loss) per common share, including discontinued operations, but before extraordinary item and cumulative effect of accounting changes, was $0.43 for the five months ended December 31, 1992. Pursuant to the Plan of Reorganization, the Company cancelled all outstanding equity securities effective with the beginning of business on August 3, 1992, and issued new common stock. Accordingly, net earnings (loss) per common share for periods prior to August 3, 1992, are not comparable.

Average shares used in the calculation of net earnings (loss) per common share were 50,000,000 for the five months ended December 31, 1992.

As a result of the Chapter 11 filing, the Company stopped reflecting preferred stock dividend requirements in net earnings (loss) per share calculations. In addition, the effect of the Series D Preferred Stock conversion feature has not been reflected in such calculations due to immateriality.

Financial Condition

Working Capital

Cash and short-term investments at December 31, 1992, totaled $68.1 million, compared to $339.7 million, including cash held in trust, at February 29, 1992. Pursuant to the Plan of Reorganization, as of the beginning of business on August 3, 1992, the Company distributed $293.1 million of cash, along with long-term debt, common stock and warrants to purchase common stock, to petition date creditors. Additional disbursements were made subsequent to August 3, 1992, including payments of accrued interest and bankruptcy expenses. As noted under Financing Arrangements, the Company made optional prepayments on October 27, 1992, and December 1, 1992, and, on December 10, 1992, an advance payment of its excess cash flow requirement for calendar year 1992, pertaining to certain issues of its long-term debt. Notwithstanding these long-term debt prepayments, which totaled approximately $25.0 million, the Company's liquidity at December 31, 1992, remained favorable as a result of positive cash generation since the Company's emergence from Chapter 11 status.

Working capital was $503.9 million at December 31, 1992, compared to $708.7 million at February 29, 1992. The current ratio was 3.9 to 1 at December 31, 1992, compared to 4.0 to 1 at the end of fiscal year 1992. Due to the Chapter 11 filing on January 24, 1991, substantially all of the current liabilities as of that date were reclassified to liabilities subject to compromise. With the Company's implementation of its Plan of Reorganization as of the beginning of business on August 3, 1992, all liabilities subject to compromise were settled.

Financing Arrangements

Pursuant to the Plan of Reorganization, the Company issued, or reinstated in the case of Industrial Revenue Bonds, long-term debt totaling $642.3 million (along with cash, common stock and warrants to purchase common stock) to settle liabilities subject to compromise. As of December 31, 1992, long-term debt, including current maturities, totaled $615.3 million. Detailed information about the individual debt instruments is presented in Note 11 of the Notes to Consolidated Financial Statements.

On October 27, 1992 and December 1, 1992, the Company made optional prepayments on the 10.0%, 9.0% and 8.5% Secured Notes and the Secured Term Loan totaling $15.1 million in face value. These optional prepayments were made on a pro rata basis among the debt instruments and were applied to the forward order of maturity of each such instrument in accordance with the provisions of each indenture and credit agreement. The optional prepayments of the 10.0% and 9.0% Secured Notes were executed by purchases made in the open market. These purchases were made at a discount to face value resulting in a gain of $0.4 million which has been included in other income (expense), net.

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On December 10, 1992, the Company made an advance payment of its excess cash flow requirement for calendar year 1992 pertaining to the 10.0% and 9.0% Secured Notes and the Secured Term Loan totaling $10.1 million in face value. This advance payment was made on a pro rata basis among the debt instruments and was applied on a pro rata order of maturity basis for each such instrument in accordance with the provisions of each indenture and credit agreement. The advance payment on the 10.0% and 9.0% Secured Notes was executed by purchases made in the open market. These purchases were made at a discount to face value resulting in a gain of $0.3 million which has been included in other income (expense), net. Current maturities of long-term debt include $23.2 million representing the remainder of the calendar year 1992 excess cash flow requirement.

In addition to the foregoing long-term debt, the Company entered into a $135 million working capital facility as of August 3, 1992, with a group of banks. The $135 million working capital facility allows for both issuance of letters of credit and cash borrowings. Letter of credit issuances are limited to no more than $100 million; cash borrowings are limited only by the facility's maximum availability less letters of credit outstanding. Maximum availability under the facility is determined by the amount of eligible accounts receivable and inventory at each month end (referred to in aggregate as a "borrowing base"). As of December 31, 1992, the Company's borrowing base pertaining to the facility totaled $239.5 million.

As of December 31, 1992, there have been no cash borrowings under the working capital facility. At December 31, 1992, there were $74.9 million in letters of credit outstanding under the facility.

The Company believes its working capital facility, together with cash generated from operations, will be adequate to meet liquidity requirements for the foreseeable future.

Pursuant to the Plan of Reorganization, the Company issued 50.0 million shares of common stock and 5.0 million warrants to purchase common stock to various creditors which, along with the cash and indebtedness distributions noted previously, constituted the consideration given by the Company to satisfy its pre-petition obligations. The common stock has a stated value of $1.00 per share.

In accordance with the Plan of Reorganization, all shares of the Company's preferred stock (Series D and E) and common stock outstanding prior to the Plan's effective date were cancelled.

Change of Fiscal Year

On November 17, 1992, the Board of Directors of the Company authorized a change in the fiscal year of the Company to a calendar year effective December 31, 1992.

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CONSOLIDATED BALANCE SHEET

(Dollars in thousands)	DECEMBER 31, 1992	FEBRUARY 29, 1992
Assets		
Current assets:		
Cash	$ 21,406	$ 18,965
Short-term investments (Note 8)	46,649	293,838
Receivables, less allowances of $7,342 ($9,097 at February 29, 1992)	262,595	279,444
Income tax refund receivable	—	5,010
Inventories (Note 9)	313,079	320,449
Prepaid expenses and other current assets	35,629	31,017
Total current assets	679,358	948,723
Property, plant and equipment (Note 2):		
Land	11,586	8,542
Buildings and improvements	105,652	191,819
Machinery and equipment	95,232	241,562
	212,470	441,923
Less accumulated depreciation	10,185	276,290
Net property, plant and equipment	202,285	165,633
Cash held in trust	—	26,927
Reorganization value in excess of amounts allocable to identifiable assets (Note 2)	102,333	—
Trademarks and tradenames (Note 2)	157,218	20,071
Other assets	36,343	88,729
	$1,177,537	$1,250,083
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Current maturities of long-term debt (Note 11)	$ 29,289	$ —
Accounts payable	63,371	72,892
Accrued employee compensation	19,501	20,792
Accrued interest expense	4,903	104,788
Other accrued expenses	49,948	41,037
Income taxes	8,471	508
Total current liabilities	175,483	240,017
Long-term debt, less current maturities (Note 11)	585,968	—
Liabilities subject to compromise	—	2,165,311
Other long-term liabilities	122,972	31,277
Shareholders' Equity (Deficit):		
Preferred stock, authorized 10,000,000 shares, no par value—issued, none (Note 12)	—	—
Preferred stock, authorized 10,000,000 shares:		
Series D, no par value—issued 11,466 shares at February 29, 1992	—	1,146
Series E, $1.00 stated value—issued 3,320,702 shares at February 29, 1992	—	3,321
Common stock, authorized 100,000,000 shares, $1.00 stated value—issued 50,000,000 shares at December 31, 1992 (Note 13)	50,000	—
Common stock, authorized 150,000,000 shares, $0.10 stated value—issued 38,733,813 shares at February 29, 1992	—	3,873
Paid-in capital	225,400	199,084
Retained earnings (deficit)	17,714	(1,393,946)
Total shareholders' equity (deficit)	293,114	(1,186,522)
	$1,177,537	$1,250,083

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENT *of* OPERATIONS

(Dollars in thousands except per share data)	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992	YEAR ENDED FEBRUARY 23, 1991
Net sales	$662,274	$ 603,573	$1,471,745	$1,439,246
Cost of sales	442,646	415,030	998,354	992,209
Gross profit	219,628	188,543	473,391	447,037
Selling, general and administrative expenses	169,791	165,514	394,138	389,906
Royalty income	5,104	3,557	7,752	6,246
Restructuring expenses	—	—	—	21,249
Earnings from operations	54,941	26,586	87,005	42,128
Interest expense	23,967	36,898	106,199	259,495
Other income (expense), net	4,902	(20)	2,329	1,885
Earnings (loss) before reorganization items, income tax expense (benefit), discontinued operations, extraordinary item and cumulative effect of a change in accounting principle	35,876	(10,332)	(16,865)	(215,482)
Reorganization items (Note 5)	—	145,688	(28,047)	—
Earnings (loss) before income tax expense (benefit), discontinued operations, extraordinary item and cumulative effect of a change in accounting principle	35,876	135,356	(44,912)	(215,482)
Income tax expense (benefit) (Note 14)	14,550	(1,044)	3,657	(64,108)
Earnings (loss) before discontinued operations, extraordinary item and cumulative effect of a change in accounting principle	21,326	136,400	(48,569)	(151,374)
Discontinued operations (net of income tax benefit of $144 in fiscal 1992 and $16,018 in fiscal 1991) (Note 4)	—	—	(323)	(24,962)
Earnings (loss) before extraordinary item and cumulative effect of a change in accounting principle	21,326	136,400	(48,892)	(176,336)
Extraordinary item—gain on extinguishment of debt (Note 6)	—	1,075,466	—	—
Cumulative effect on prior years of a change in accounting for postretirement benefits other than pensions and income taxes (Note 7)	—	(25,544)	—	—
Net earnings (loss)	21,326	1,186,322	(48,892)	(176,336)
Less preferred stock dividend requirements	—	—	—	(95,761)
Net earnings (loss) applicable to common stock	$ 21,326	$1,186,322	$ (48,892)	$ (272,097)
Net earnings (loss) per common share:				
Earnings (loss) before discontinued operations, extraordinary item and cumulative effect of a change in accounting principle	$ 0.43	$ 3.52	$ (1.25)	$ (6.38)
Discontinued operations	—	—	(0.01)	(0.65)
Extraordinary item—gain on extinguishment of debt	—	27.72	—	—
Cumulative effect on prior years of a change in accounting for postretirement benefits other than pensions and income taxes	—	(0.66)	—	—
Net earnings (loss) applicable to common stock	$ 0.43	$ 30.58	$ (1.26)	$ (7.03)
Weighted average common shares outstanding	50,000,000	38,796,000	38,731,000	38,720,000

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENT *of* CASH FLOWS

(Dollars in thousands)	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992	YEAR ENDED FEBRUARY 23, 1991
Cash Flows from Operating Activities:				
Net earnings (loss)	$21,326	$1,186,322	$ (48,892)	$(176,336)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:				
(Gain) loss on disposal of assets	(1,797)	684	3,577	(664)
Net adjustment in accounts for fair value	—	(158,698)	—	—
Loss on discontinued operations	—	—	323	24,962
Gain on extinguishment of debt	—	(1,075,466)	—	—
Cumulative effect of a change in accounting for postretirement benefits other than pensions and income taxes	—	25,544	—	—
Depreciation of property, plant and equipment	10,764	12,105	29,306	30,771
Amortization of intangible assets	2,931	1,125	2,916	2,926
Noncash interest expense	339	866	3,555	90,985
(Increase) decrease in deferred income taxes	68	(1,560)	(6,014)	2,970
(Increase) decrease in receivables	(8,753)	25,602	(19,708)	37,858
(Increase) decrease in income tax refund receivable, net	6,175	(1,802)	75,484	(93,097)
Decrease in inventories	5,639	1,731	16,905	23,121
(Increase) decrease in prepaid expenses and other assets	6,310	(5,835)	(3,625)	(21,806)
Increase in cash held in trust	—	(424)	(1,410)	(25,517)
Increase (decrease) in accounts payable, accrued interest expense and other accrued expenses	(24,580)	37,403	124,560	83,532
Increase (decrease) in other long-term liabilities	4,677	(681)	(6,325)	(1,799)
Increase in liabilities subject to compromise	—	—	27,653	—
Reorganization costs, net	—	—	7,253	—
	23,099	46,916	205,558	(22,094)
Net cash provided by discontinued operations	—	—	38,225	68,255
Net cash provided by operating activities	23,099	46,916	243,783	46,161
Cash Flows from Investing Activities:				
Net cash proceeds from the disposal of assets	2,361	1,485	1,781	6,635
Additions to property, plant and equipment	(12,936)	(10,099)	(28,369)	(19,612)
Net cash used by investing activities	(10,575)	(8,614)	(26,588)	(12,977)
Cash Flows from Financing Activities:				
Additions to short-term and long-term debt	—	577	—	56,900
Payments of short-term and long-term debt	(27,611)	—	(951)	(41,854)
Net cash provided (used) by financing activities	(27,611)	577	(951)	15,046
Cash Flows from Reorganization Activities:				
Payments of liabilities subject to compromise	—	(293,135)	—	—
Payments of deferred financing fees and expenses	—	(2,756)	—	—
Proceeds from cash held in trust	—	27,351	—	—
Net cash used by reorganization activities	—	(268,540)	—	—
Net increase (decrease) in cash and cash equivalents	(15,087)	(229,661)	216,244	48,230
Cash and cash equivalents at beginning of period	83,142	312,803	96,559	48,329
Cash and cash equivalents at end of period	$68,055	$ 83,142	$312,803	$ 96,559
Supplemental Disclosure:				
Cash payments (refunds) for income taxes, net	$ 8,091	$ 1,360	$ (75,031)	$ 4,848
Cash payments for interest, exclusive of reorganization activities	$41,892	$ 208	$ 4,005	$ 87,236

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENT *of* SHAREHOLDERS' EQUITY (DEFICIT)

(Dollars in thousands except per share data)	PREFERRED STOCK SERIES D	SERIES E	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL
Balance February 24, 1990	$1,174	$ 3,321	$ 145,157	$ 57,772	$(1,166,382)	$ (958,958)
Net loss					(176,336)	(176,336)
Conversion of preferred stock:						
Series D—227 shares	(23)		5	18		—
Reduction in stated value of common stock to $0.10 per share			(141,289)	141,289		—
Foreign currency translations					83	83
Balance February 23, 1991	1,151	3,321	3,873	199,079	(1,342,635)	(1,135,211)
Net loss					(48,892)	(48,892)
Conversion of preferred stock:						
Series D—50 shares	(5)			5		—
Foreign currency translations					(2,419)	(2,419)
Balance February 29, 1992	1,146	3,321	3,873	199,084	(1,393,946)	(1,186,522)
Net earnings—Five months ended August 2, 1992					1,186,322	1,186,322
Conversion of preferred stock:						
Series D—1,600 shares	(160)		15	145		—
Foreign currency translations—Five months ended August 2, 1992					200	200
Fresh-start adjustments:						
Cancellation of former equity and elimination of deficit	(986)	(3,321)	(3,888)	(199,229)	207,424	—
Issuance of new equity			50,000	225,400		275,400
Net earnings—Five months ended December 31, 1992					21,326	21,326
Foreign currency translations—Five months ended December 31, 1992					(3,612)	(3,612)
Balance December 31, 1992	$ —	$ --	$ 50,000	$ 225,400	$ 17,714	$ 293,114

See accompanying notes to consolidated financial statements.

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(Dollars in thousands except per share data)

1. *Reorganization and Emergence from Chapter 11*

INTERCO INCORPORATED (the "Company") is a major manufacturer of furniture and one of the leading manufacturers and retailers of footwear through two operating segments. The furniture segment consists of Broyhill Furniture Industries, Inc. and The Lane Company, Incorporated and the footwear segment consists of The Florsheim Shoe Company and Converse Inc.

On January 24, 1991, INTERCO INCORPORATED and its domestic subsidiaries filed petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Missouri (the "Court"). On June 26, 1992, the Court approved and confirmed the Amended Joint Plan of Reorganization of the Company (the "Plan") and the order was docketed on June 30, 1992. The Company emerged from Chapter 11 effective with the beginning of business on August 3, 1992. In general, the Plan provided for resolution of all claims against the Company as of January 24, 1991, the Chapter 11 filing date, as well as resolution of certain legal disputes, in exchange for cash, new indebtedness and/or new common equity securities. The distribution record date for determining those creditors to whom distributions were made was June 30, 1992. The Plan provided for no distributions to the holders of the Company's Series D Preferred Stock, Series E Preferred Stock or common stock, and all outstanding shares of those equity securities were cancelled as of the effective date of the Plan.

2. *Significant Accounting Policies*

The Company follows generally accepted accounting principles to present fairly its consolidated financial position, results of operations, cash flows and shareholders' equity. The major accounting policies of the Company are set forth below.

Fresh-Start Reporting

As of August 2, 1992, in accordance with the AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7"), the Company was required to adopt "fresh-start" reporting and reflect the effects of such adoption in the financial statements for the five months ended August 2, 1992. The ongoing impact of the adoption of fresh-start reporting is reflected in the financial statements for the five months ended December 31, 1992. Accordingly, the December 31, 1992 consolidated balance sheet is not comparable to the February 29, 1992 consolidated balance sheet.

In adopting fresh-start reporting, the Company, with the assistance of its financial advisors, was required to determine its reorganization value, which represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the Company immediately after its emergence from Chapter 11 status. The reorganization value of the Company was determined by consideration of several factors, including: the discounted residual value of the Company; market share, position and competition of each operating company; projected sales, profitability growth and working capital requirements; and general economic considerations. Various valuation methods were relied upon, including discounted cash flow, price/earnings ratios, comparable merger and acquisition activities and other applicable ratios and industry indices.

The adjustments to reflect the consummation of the Plan, including the gain on extinguishment of debt relating to pre-petition liabilities and the adjustment to record assets and liabilities at their fair values (including the establishment of reorganization value in excess of amounts

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allocable to identifiable assets), have been reflected in the accompanying consolidated financial statements. Accordingly, a vertical black line is shown to separate post-emergence operations from those prior to August 3, 1992 in the consolidated financial statements since they have not been prepared on a comparable basis.

Fiscal Year

Effective December 31, 1992, the Company changed its fiscal year end to December 31. Prior to December 31, 1992, the Company's fiscal year ended on the last Saturday in February.

For purposes of this annual report, calendar 1992 refers to the two five month periods ended August 2, 1992 and December 31, 1992, fiscal 1992 refers to the 12 month period ended February 29, 1992, and fiscal 1991 refers to the 12 month period ended February 23, 1991.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries, the majority of which are wholly owned. All material intercompany transactions are eliminated in consolidation. The operating companies included in the consolidated financial statements report their results of operations as of the Saturday closest to December 31. Accordingly, the results of operations will periodically include a 53 week fiscal year. As a result of adopting fresh-start reporting, the Company's 1992 calendar year includes a 22 week period ending August 2, 1992 and a 22 week period ending January 2, 1993 for the operating companies.

Short-Term Investments

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. Short-term investments are recorded at amortized cost, which approximates market.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost when acquired. Expenditures for improvements are capitalized while normal repairs and maintenance are expensed as incurred. When properties are disposed of, the related cost and accumulated depreciation or amortization are removed from the accounts, and gains or losses on the dispositions are reflected in results of operations. For financial reporting purposes, the Company utilizes both accelerated and straight-line methods of computing depreciation and amortization. Such expense is computed based on the estimated useful lives of the respective assets, which generally range from 3 to 45 years for buildings and improvements and from 3 to 11 years for machinery and equipment.

In connection with the adoption of fresh-start reporting, the Company was required to adjust property, plant and equipment to fair value. Such adjustment resulted in an increase in net property, plant and equipment of approximately $42,400 with no material change in the remaining useful lives.

Reorganization Value in Excess of Amounts Allocable to Identifiable Assets

As a result of adopting fresh-start reporting, the Company recorded reorganization value in excess of amounts allocable to identifiable assets of approximately $104,500. This intangible asset is being amortized on a straight-line basis over a 20 year period.

Trademarks and Tradenames

In connection with the adoption of fresh-start reporting, the Company recorded approximately $158,900 in fair value of trademarks and tradenames based upon an independent appraisal. Such trademarks and tradenames are being amortized on a straight-line basis over a 40 year period.

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Excess of Cost Over Fair Value of Net Assets Acquired

The excess of cost over fair value of net assets of companies acquired is included in other assets at February 29, 1992 and, until August 2, 1992, was amortized on a straight-line basis over periods ranging from 25 to 40 years. In connection with the adoption of fresh-start reporting, the excess of cost over fair value of net assets acquired was written off as an adjustment to fair value.

Reorganization Items

Reorganization items consist of income, expenses and other costs directly related to the reorganization of the Company since the Chapter 11 filing and subsequent reorganization efforts.

Income Tax Expense (Benefit)

In connection with the adoption of fresh-start reporting, the Company was required to adopt Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). SFAS No. 109 requires a change from the deferred method of accounting for income taxes of Accounting Principles Board Opinion No. 11 to the asset and liability method of accounting for income taxes. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Extraordinary Item

The extraordinary item represents the gain, net of income taxes, resulting from the discharge of pre-petition liabilities in accordance with the Plan.

Cumulative Effect on Prior Years of a Change in Accounting for Postretirement Benefits other than Pensions and Income Taxes

In connection with the adoption of fresh-start reporting, the Company was required to adopt Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions" ("SFAS No. 106") as of August 2, 1992. SFAS No. 106 requires the cost of these benefits be recognized in the financial statements over an employee's service period with the Company. Prior to August 2, 1992, the Company recognized these benefits on a cash payment basis. Both the adoption of SFAS No. 106 and SFAS No. 109 (described above under Income Tax Expense (Benefit)) represent a change in accounting principle.

Net Earnings (Loss) Per Common Share

Net earnings (loss) per common share is based on the weighted average number of shares of common stock outstanding during the year. Prior to the Company's emergence from Chapter 11, common stock equivalents and the conversion of Series D Preferred Stock were not included in computations of net earnings (loss) per common share as they were not dilutive. As a result of the Chapter 11 filing, the Company stopped providing for preferred dividend requirements. The net loss per common share was increased by the dividend requirements on Series D and Series E Preferred Stock in fiscal 1991. Subsequent to the Company's emergence from Chapter 11, net earnings (loss) per share is calculated based on the common stock issued in accordance with the Plan. The stock options and warrants issued pursuant to the Plan (Note 13) are considered common stock equivalents, but are not dilutive for purposes of computing earnings per share for calendar 1992.

Reclassification

Certain fiscal 1992 and fiscal 1991 amounts have been reclassified to conform to the calendar 1992 presentation.

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3. *Fiscal Year Change*

During 1992, the Company changed its fiscal year from one ending on the last Saturday of February to one ending on December 31. As a result of adopting fresh-start reporting, the Company's results of operations for the transition period, which ended on December 31, 1992, cover two 22 week periods (March 1, 1992 through August 2, 1992, and August 3, 1992 through December 31, 1992). The following are selected financial data for the ten months ended December 31, 1991. As a result of adopting fresh-start reporting, such data, except for net sales, is not comparable to the ten months ended December 31, 1992.

	TEN MONTHS ENDED DECEMBER 31, 1991
	(UNAUDITED)
Net sales	$1,203,569
Gross profit	386,821
Loss before income tax benefit and discontinued operations	(42,140)
Income tax benefit	424
Net loss before discontinued operations	(41,716)
Discontinued operations (net of income tax benefit of $80)	(194)
Net loss applicable to common stock	$ (41,910)
Loss per common share:	
Net loss before discontinued operations	$ (1.08)
Net loss applicable to common stock	$ (1.08)

4. *Discontinued Operations*

During the fiscal year ended February 25, 1989, the Company announced its intention to offer for sale the Apparel Manufacturing segment and the General Retail Merchandising segment. In accordance with Accounting Principles Board Opinion No. 30, the financial results for these segments were reported as "Discontinued Operations."

During calendar 1992, the Company disposed of certain real estate which remained from the liquidation and/or sale of the two segments. These asset dispositions generated approximately $3,500 in cash with no impact on results of operations.

In fiscal 1992, the Company completed the controlled liquidations of the assets of Megastar Apparel Group and Abe Schrader Corporation, except for the disposal of certain real estate which continues to be offered for sale. Those asset liquidations, along with certain miscellaneous real estate sales, generated approximately $34,000 in cash and resulted in a $323 loss from disposal of assets.

In fiscal 1991, the Company disposed of Sky City Stores, Inc. and Devon Apparel through controlled liquidations. In addition, the Company commenced similar liquidations of the assets of Megastar Apparel Group and Abe Schrader Corporation. Those asset dispositions, along with the sales of certain miscellaneous real estate, generated approximately $64,000 in cash. Condensed results of the discontinued operations were as follows:

	YEAR ENDED FEBRUARY 23, 1991
Net sales	$157,898
Loss before income tax benefit	$ (10,274)
Income tax benefit	3,531
Net loss	(6,743)
Loss on disposal of assets (net of income tax benefit of $12,487)	(18,219)
	$ (24,962)

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All estimated costs and expenses (including anticipated operating losses through the final liquidation date) are accrued. Management anticipates the net gains to be realized on the disposal of real estate held for sale should at least equal the future carrying costs associated with the real estate.

5. *Reorganization Items*

Reorganization items consist of income, expenses and other costs directly related to the reorganization of the Company since the Chapter 11 filing and subsequent reorganization efforts. Reorganization items included in the consolidated statement of operations are summarized as follows:

	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992	YEAR ENDED FEBRUARY 23, 1991
Adjustments to fair value	$ —	$158,698	$ —	$ —
Fees for services rendered	—	(12,813)	(25,135)	—
Other reorganization costs and expenses	—	(3,991)	(7,865)	—
Debtor-in-possession financing fee amortization and expenses	—	(481)	(3,644)	—
Interest earned on accumulated cash resulting from Chapter 11 proceedings	—	4,275	8,597	—
	$ —	$145,688	$(28,047)	$ —

Adjustments to fair value reflect the net change to state assets and liabilities at fair value in accordance with the provisions of SOP 90-7.

6. *Extraordinary Item—Gain on Extinguishment of Debt*

The Plan resulted in the discharge of approximately $2,200,000 of pre-petition liabilities against the Company through the distribution to creditors of $293,100 in cash, $642,300 in various debt instruments, 50.0 million shares of common stock and 5.0 million warrants to purchase common stock. The book value of cash and securities distributed was approximately $1,100,000 less than the pre-petition liabilities, and the resultant gain was recorded as an extraordinary item.

7. *Cumulative Effect of Accounting Changes*

In connection with the adoption of fresh-start reporting, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions," as of August 2, 1992. The cumulative effect of the change on retained earnings prior to the adoption of fresh-start reporting at August 2, 1992, was approximately $23,600, net of income taxes of approximately $13,200 (See Note 15). The Company also adopted SFAS No. 109, "Accounting for Income Taxes," as of August 2, 1992. The cumulative effect of the change on retained earnings prior to the adoption of fresh-start reporting at August 2, 1992, was a charge of approximately $1,900 (See Note 14).

8. *Short-Term Investments*

Short-term investments are summarized as follows:

	DECEMBER 31, 1992	FEBRUARY 29, 1992
Cash management fund	$40,500	$ —
U.S. Treasury bills	—	258,101
Commercial paper	4,998	35,696
Other	1,151	41
	$46,649	$293,838

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At December 31, 1992, most of the Company's short-term investments were in a cash management fund operated by the lead bank of the Company's working capital facility. This fund invests in high quality money market instruments and provides the Company daily access to its liquid assets for operational purposes.

9. *Inventories*

Inventories are summarized as follows:

	DECEMBER 31, 1992	FEBRUARY 29, 1992
Retail merchandise	$ 64,104	$ 66,034
Finished products	146,568	148,596
Work-in-process	40,628	39,579
Raw materials	61,779	66,240
	$313,079	$320,449

10. *Short-Term Financing*

Upon emergence from Chapter 11 on August 3, 1992, the Company entered into a $135,000 working capital facility with a group of banks. The working capital facility allows for both issuance of letters of credit and cash borrowings. Letter of credit issuances are limited to no more than $100,000; cash borrowings are limited only by the facility's maximum availability less letters of credit outstanding. Maximum availability under the facility is determined by the amount of eligible accounts receivable and inventory at each month end (referred to in aggregate as a "borrowing base"). As of December 31, 1992, the Company's borrowing base pertaining to the facility totaled $239,450.

The working capital facility is secured by a first priority lien on and security interest in substantially all property of the Company. The Company paid a facility fee of 2.0% of the commitment of $135,000 to the banks. The Company is required to pay an annual unused line (commitment) fee of 1/2 of 1% on the average daily unused portion of the commitment of the banks, payable quarterly in arrears, until such commitments are terminated. The Company also pays an annual collateral management fee of $250.

The outstanding cash borrowings under the revolving credit loan facility bear interest at prime rate plus 1.75% or at an adjusted eurodollar rate plus 2.75% depending upon which type of loan the Company executes. As of December 31, 1992, there have been no cash borrowings under the revolving credit loan facility.

Under the letter of credit facility, a fee of 1.5% per annum in the case of commercial (trade) letters of credit and 2.75% per annum in the case of stand-by letters of credit is assessed for the account of the lenders ratably. A further fee of 1/2 of 1% is assessed on stand-by letters of credit representing a facing fee. A customary administrative charge for issuance of letters of credit is also payable to the relevant issuing banks. Letters of credit fees are payable quarterly in arrears. At December 31, 1992, there were $74,925 in letters of credit outstanding under the working capital facility.

With the Company's emergence from bankruptcy effective with the beginning of business on August 3, 1992, the debtor-in-possession financing facility (the "DIP Financing Facility") previously in effect was terminated. No cash borrowings occurred while the DIP Financing Facility was active. Letters of credit issued under the DIP Financing Facility that were outstanding on its termination date were indemnified by issuance of letters of credit under the Company's working capital facility.

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11. *Long-Term Debt*

Pursuant to the Plan, the Company issued, or reinstated in the case of Industrial Revenue Bonds, long-term debt (along with cash, common stock and warrants to purchase common stock) to settle liabilities classified as "Liabilities subject to compromise."

Long-term debt consisted of the following:

	DECEMBER 31, 1992	FEBRUARY 29, 1992
10.0% secured notes due 2001	$109,199	$ —
9.0% secured notes due 2004	155,636	—
8.5% secured notes due 1997	11,208	—
Secured term loan	302,238	—
ILGWU fund note	19,150	—
6.0% to 8.75% industrial revenue bonds payable in varying amounts through 2004	13,193	11,617
Federal tax obligation	4,633	—
Secured credit agreement	—	843,515
7.95% to 8.875% promissory notes due 1991 to 1993	—	200,000
	615,257	1,055,132
Less current maturities	(29,289)	—
Less liabilities subject to compromise	—	(1,055,132)
	$585,968	$ —

The common stock of the Company's principal subsidiaries, substantially all of the Company's cash, working capital and property, plant and equipment have been pledged or mortgaged as security for various components of the long-term debt on a shared basis and the working capital facility. The liens securing the long-term debt are subordinate to the liens on such property securing the working capital facility. In addition, the debt instruments pursuant to which the long-term debt and working capital facility were issued contain a number of restrictive covenants and events of default, including covenants limiting capital expenditures and incurrence of debt, and require the Company to achieve certain financial ratios, some of which become more restrictive over time. The Company is in compliance with all covenants applicable at December 31, 1992.

Under certain circumstances, the Company will be required to apply to the repayment or redemption of the Secured Notes, the Secured Term Loan and the ILGWU Fund Note, a portion of the net proceeds realized from (i) the sale, conveyance, or other disposition of collateral securing such debt or (ii) the sale by the Company for its own account of additional subordinated debt and/or shares of its common stock.

The following discussion summarizes certain provisions of the long-term debt.

10.0% Secured Notes Due 2001

The 10.0% Notes are secured obligations of the Company which mature on June 1, 2001 and bear interest at the rate per annum of 10.0%. Interest is payable semi-annually, on December 1 and June 1, commencing on December 1, 1992. The initial interest period began on March 1, 1992.

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For fiscal years ending prior to June 1, 1995, excess cash flow (as specifically defined in the indenture) is applied, on a pro rata basis with the 9.0% Notes and the Secured Term Loan, to the redemption of the 10.0% Notes with such payments occurring on or before the April 1 succeeding each fiscal year end. Mandatory sinking fund payments, exclusive of any credits resulting from potential future excess cash flow payments, are due as follows:

PAYMENT DATE	AMOUNT	PAYMENT DATE	AMOUNT
June 1, 1996	$ 8,498	June 1, 1999	$14,737
June 1, 1997	14,737	June 1, 2000	14,737
June 1, 1998	14,737	June 1, 2001	Remaining balance

9.0% Secured Notes Due 2004

The 9.0% Notes are secured obligations of the Company which mature on June 1, 2004 and bear interest at the rate per annum of 9.0%. Interest is payable semi-annually, on December 1 and June 1, commencing on December 1, 1992. The initial interest period began on March 1, 1992.

Excess cash flow (as specifically defined in the indenture) is applied, on a pro rata basis with the 10.0% Notes (until June 1, 1995) and the Secured Term Loan, to the redemption of the 9.0% Notes with such payments occurring on or before the April 1 succeeding each fiscal year end. Mandatory sinking fund payments, exclusive of any credits resulting from potential future excess cash flow payments, are due as follows:

PAYMENT DATE	AMOUNT	PAYMENT DATE	AMOUNT
June 1, 2000	$4,694	December 1, 2002	$5,677
June 1, 2001	5,010	June 1, 2003	5,677
December 1, 2001	5,510	December 1, 2003	5,677
June 1, 2002	5,510	June 1, 2004	Remaining balance

8.5% Secured Notes Due 1997

The 8.5% Notes are secured obligations of the Company which mature on June 1, 1997 and bear interest at the rate per annum of 8.5%. Interest is payable semi-annually, on December 1 and June 1, commencing on December 1, 1992. The initial interest period began on August 3, 1992.

Mandatory sinking fund payments begin on June 1, 1993, and continue on each subsequent June 1, ending on June 1, 1997. Each principal payment will equal 20% of the original principal amount, less any optional prepayments made by the Company prior to a mandatory payment.

Secured Term Loan

The Secured Term Loan is a secured obligation of the Company which matures on June 1, 2004. From March 1, 1992 to June 1, 1997, the Secured Term Loan will bear interest at the rate per annum of 9.0%. Commencing June 1, 1997, the interest rate converts to LIBOR plus 2.5%, adjusted annually on each June 1; however, such annual interest rate adjustment shall be limited as to not allow pro forma consolidated interest coverage to be less than 2.5 to 1. The interest rate in no case shall fall below 9.0%. Interest is payable quarterly, on each September 1, December 1, March 1 and June 1, commencing on September 1, 1992. The initial interest period began on March 1, 1992.

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Excess cash flow (as specifically defined in the Secured Term Loan Agreement) is applied, on a pro rata basis with the 10.0% Notes (until June 1, 1995) and the 9.0% Notes, to the prepayment of the Secured Term Loan with such payments occurring on or before the April 1 succeeding each fiscal year end. Scheduled amortization payments, exclusive of any credits resulting from potential future excess cash flow payments, are due as follows:

PAYMENT DATE	AMOUNT	PAYMENT DATE	AMOUNT
June 1, 2000	$ 9,109	December 1, 2002	$11,025
June 1, 2001	9,727	June 1, 2003	11,025
December 1, 2001	10,701	December 1, 2003	11,025
June 1, 2002	10,701	June 1, 2004	Remaining balance

ILGWU Fund Note

The ILGWU Fund Note is a secured obligation of the Company which matures July 1, 1998 and bears interest at the rate per annum of 6.5%. Interest is payable quarterly, on October 1, January 1, April 1 and July 1, commencing on October 1, 1992. The initial interest period began on July 1, 1992.

Quarterly principal payments of $750 commenced on October 1, 1992 and continue through July 1, 1997. Quarterly principal payments of $1,225 commence on October 1, 1997 and continue through April 1, 1998, with the remaining balance due on July 1, 1998.

Industrial Revenue Bonds

Pursuant to the Plan, all pre-petition Industrial Revenue Bonds were reinstated and, as of August 2, 1992, all previously deferred principal and interest payment obligations were satisfied through cash distributions.

Federal Tax Obligation

In settlement of certain Federal tax obligations, the Company entered into an unsecured obligation with the Internal Revenue Service which matures on August 3, 1998, and bears interest at 8.0%. Interest and principal are paid quarterly based upon a predetermined amortization schedule.

Other Information

On October 27, 1992 and December 1, 1992, the Company made optional prepayments on the 10.0%, 9.0% and 8.5% Secured Notes and the Secured Term Loan totaling $15,104 in face value. These optional prepayments were made on a pro rata basis among the debt instruments and were applied to the forward order of maturity of each such instrument in accordance with the provisions of each indenture and credit agreement. The optional prepayments of the 10.0% and 9.0% Secured Notes were executed by purchases made in the open market. These purchases were made at a discount to face value resulting in a gain of $444 which has been included in other income (expense), net.

On December 10, 1992, the Company made an advance payment of its excess cash flow requirement for calendar 1992 pertaining to the 10.0% and 9.0% Secured Notes and the Secured Term Loan totaling $10,127 in face value. This advance payment was made on a pro rata basis among the debt instruments and was applied on a pro rata order of maturity basis for each such instrument in accordance with the provisions of each indenture and credit agreement. The advance payment of the 10.0% and 9.0% Secured Notes was executed by purchases made in the open market. These purchases were made at a discount to face value resulting in a gain of $279 which has been included in other income (expense), net.

The optional prepayments and advance payment of excess cash flow discussed in the foregoing paragraphs have been reflected in the amortization tables noted previously for the 10.0% and 9.0% Secured Notes and the Secured Term Loan.

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Maturities of long-term debt are $29,289, $9,203, $7,128, $15,344 and $21,871 for calendar years 1993 through 1997, respectively. Current maturities of long-term debt at December 31, 1992, include $23,184 representing the remainder of the calendar 1992 excess cash flow requirement.

12. *Preferred Stock*

Upon emergence from Chapter 11, the Company's revised articles of incorporation included authorization to issue up to 10.0 million shares of no par value, preferred stock. As of December 31, 1992, no preferred stock has been issued.

In accordance with the Plan, all shares of the Company's preferred stock (Series D and E) outstanding prior to the Plan's effective date were cancelled.

13. *Common Stock*

Pursuant to the Plan, the Company issued 50.0 million shares of common stock and 5.0 million warrants to purchase common stock to various creditors which, along with the cash and indebtedness distributions noted previously, constituted the consideration given by the Company to satisfy its pre-petition obligations. The common stock has a stated value of $1.00 per share and the Company has authorization to issue up to 100.0 million shares.

The holders of the common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Subject to preferential rights that may be applicable to any preferred stock (none of which has been issued as of December 31, 1992), holders of common stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefor. However, it is not presently anticipated that dividends will be paid on common stock in the foreseeable future and certain of the debt instruments to which the Company is a party restrict the payment of dividends. All of the outstanding shares of common stock issued pursuant to the Plan are fully paid and nonassessable. A substantial portion of the shares of common stock issued pursuant to the Plan is subject to certain restrictions on disposition as provided in the Plan.

Shares of common stock were reserved for the following purposes at December 31, 1992:

(In thousands)	NUMBER OF SHARES
Common stock options:	
Granted	2,500
Available for grant	—
Common stock warrants	5,000
	7,500

Under the Company's 1992 Stock Option Plan, certain key employees may be granted nonqualified options, incentive options or combinations thereof. Nonqualified and incentive options expire ten years after the date of grant.

Pursuant to the 1992 Stock Option Plan, the Company granted to certain key employees on August 31, 1992, nonqualified stock options totaling 2.5 million shares. The stock options were granted with an exercise price of $7.00 per share which represented the fair market value of the common stock on the date of grant. All stock options are conditioned upon shareholder approval of the 1992 Plan by August 3, 1993. No additional stock options are available for grant under the 1992 Stock Option Plan. The options become fully exercisable on August 31, 1998; however, all or portions of the options granted may become exercisable earlier if, during each of the calendar years 1992 through 1996, the Company achieves certain performance targets. At December 31, 1992, no options were exercisable.

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Pursuant to the Plan, 5.0 million warrants to purchase common stock were issued. Each warrant entitles the holder thereof to purchase one share of common stock at $12.00 per share; provided however, that in the event of certain mergers, acquisitions, liquidations and tender offers involving the Company, the purchase price and number of shares of common stock shall be subject to adjustment in accordance with the Warrant Agreement. The warrants were issued in two series; Series 1 warrants include a five year call protection, whereas Series 2 warrants do not include such a feature. All other terms and conditions of the two series of warrants are identical. The warrants trade on the over-the-counter market. No warrants were exercised as of December 31, 1992.

In accordance with the Plan, all shares of the Company's common stock outstanding prior to the Plan's effective date were cancelled, as were all option shares outstanding, shares available for grant, existing stock option plans and common share purchase rights.

14. *Income Taxes*

As discussed in Note 2 and Note 7, the Company was required to adopt SFAS No. 109 as of August 2, 1992. The cumulative effect of the change on retained earnings prior to the adoption of fresh-start reporting at August 2, 1992, was a charge of approximately $1,900. Prior period financial statements have not been restated to apply the provisions of SFAS No. 109.

Income tax expense (benefit) was comprised of the following:

	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992	YEAR ENDED FEBRUARY 23, 1991
Current:				
Federal	$ 9,972	$(1,373)	$(4,708)	$(71,787)
State and local	3,213	1,760	3,631	2,926
Foreign	1,297	129	1,753	1,783
	14,482	516	676	(67,078)
Deferred	68	(1,560)	2,981	2,970
	$14,550	$(1,044)	$ 3,657	$(64,108)

The following table reconciles the differences between the Federal corporate statutory rate and the Company's effective income tax rate:

	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992	YEAR ENDED FEBRUARY 23, 1991
Federal corporate statutory rate	34.0%	34.0%	34.0%	34.0%
State and local income taxes, net of Federal tax benefit	3.3	0.8	(5.3)	(1.0)
Foreign taxes, including foreign currency translation effects	4.1	0.4	(16.3)	(2.3)
Reorganization items	—	(37.3)	(19.2)	—
Other	(0.8)	1.3	(1.3)	(0.9)
Effective income tax rate	40.6%	(0.8)%	(8.1)%	29.8%

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The sources of the tax effects for temporary differences that give rise to the deferred tax assets and liabilities were as follows:

	DECEMBER 31, 1992
Deferred tax assets:	
Employee postretirement benefits other than pensions	$13,152
Interest expense	8,751
Expense accruals	9,583
Valuation reserves	5,473
Inventory costs capitalized	2,125
Other	944
Total gross deferred tax assets	40,028
Valuation allowance	—
Total net deferred tax assets	40,028
Deferred tax liabilities:	
Fair value adjustments	(62,519)
Depreciation	(7,964)
Employee pension plans	(4,015)
Other	(7,143)
Total deferred tax liabilities	(81,641)
Net deferred tax liabilities	$(41,613)

The net deferred tax liabilities are included in the consolidated balance sheet as follows:

	DECEMBER 31, 1992
Prepaid expenses and other current assets	$ 22,895
Other long-term liabilities	(64,508)
	$(41,613)

The Federal income tax returns of the Company and its major subsidiaries have been examined by the Internal Revenue Service ("IRS") through fiscal 1991. For tax periods beginning January 1, 1982 and ending on the Chapter 11 filing date, the IRS filed claims against the Company for estimated Federal income tax deficiencies, including interest thereon. These claims were settled by the Company entering into an unsecured obligation with the IRS totaling approximately $4,800 (See Note 11). In addition to the claims filed by the IRS, various state and local tax authorities filed claims against the Company, the majority of which were settled prior to the Company's emergence from Chapter 11. The remaining claims are being contested or are in process of being settled for amounts that, in total, are immaterial.

For fiscal 1992 and 1991, certain items were recognized for income tax purposes in years other than those in which they were reported in the consolidated financial statements. The sources of these differences were as follows:

	YEAR ENDED FEBRUARY 29, 1992	YEAR ENDED FEBRUARY 23, 1991
Depreciation	$(1,157)	$(3,220)
Deferred compensation and pension expense	568	957
Valuation and expense accruals	866	2,033
Inventory costs capitalized	1,443	1,141
Interest expense	—	(1,906)
Other	1,261	3,965
	$ 2,981	$ 2,970

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15. *Employee Benefits*

The Company sponsors or contributes to retirement plans covering substantially all employees. The total cost of all plans for calendar 1992 (ten months) and fiscal 1992 and 1991 was $3,410, $3,249 and $3,909, respectively.

Company-Sponsored Defined Benefit Plans

Annual cost for defined benefit plans is determined using the projected unit credit actuarial method. Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

It is the Company's practice to fund pension costs to the extent that such costs are tax deductible and in accordance with ERISA. Funding decisions made in calendar 1992 contributed towards the deferred or prepaid pension cost. The assets of the various plans include corporate equities, government securities, corporate debt securities and insurance contracts. The tables below summarize the funded status of the Company-sponsored defined benefit plans.

	DECEMBER 31, 1992	FEBRUARY 29, 1992
Actuarial present value of benefit obligations:		
Vested benefit obligation	$270,852	$254,164
Accumulated benefit obligation	$277,076	$259,379
Projected benefit obligation	$301,711	$294,479
Plan assets at fair value	343,662	339,626
Projected benefit obligation less than plan assets	41,951	45,147
Unrecognized net (gain) loss	(8,340)	(14,905)
Unrecognized prior service cost	—	1,901
Unrecognized net (asset) obligation at year end	—	(19,757)
Prepaid pension cost	$ 33,611	$ 12,386

Net periodic pension cost of continuing operations for calendar 1992 and fiscal 1992 and 1991, include the following components:

	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992	YEAR ENDED FEBRUARY 23, 1991
Service cost-benefits earned during the period	$ 2,610	$ 2,668	$ 5,146	$ 4,549
Interest cost on the projected benefit obligation	9,654	9,553	22,070	19,837
Actual return on plan assets	(19,982)	(1,388)	(51,287)	(31,685)
Net amortization and deferral	8,340	(10,757)	23,995	7,526
Net periodic pension cost	$ 622	$ 76	$ (76)	$ 227

Employees are covered primarily by noncontributory plans, funded by Company contributions to trust funds, which are held for the sole benefit of employees. Monthly retirement benefits generally are based upon service, pay, or both, with employees generally becoming vested upon completion of five years of service.

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The expected long-term rate of return on plan assets was 8.0%-9.5% in calendar 1992 and 8.0%-8.5% in fiscal 1992 and 1991. Measurement of the projected benefit obligation was based upon a discount rate of 7.75%, 7.75% and 8.75% and a long-term rate of compensation increase of 5.0%, 5.5% and 5.5% for calendar 1992, fiscal 1992 and fiscal 1991, respectively. The discount rate used in the development of the net periodic pension cost for calendar 1992 and fiscal 1992 and 1991 was 7.75%, 8.75% and 8.75%, respectively.

Other Retirement Plans and Benefits

In addition to defined benefit plans, the Company makes contributions to various defined contribution, union-negotiated and foreign plans. The cost of these plans is included in the total cost for all plans reflected above.

The Company also sponsors two savings plans and an Employee Stock Ownership Plan ("ESOP"). The total cost of these plans for calendar 1992 and fiscal 1992 and 1991 was $453, $508 and $544, respectively. At December 31, 1992, the ESOP held 4,463 shares of INTERCO INCORPORATED common stock and 1,772 INTERCO INCORPORATED Series 1 Warrants.

In addition to pension and other supplemental benefits, certain retired employees are currently provided with specified health care and life insurance benefits. Eligibility requirements for such benefits vary by division and subsidiary, but generally state that benefits are available to employees who retire after a certain age with specified years of service if they agree to contribute a portion of the cost. The Company has reserved the right to modify or terminate these benefits. Health care and life insurance benefits are provided to both retired and active employees through medical benefit trusts, third-party administrators and insurance companies.

As discussed in Note 2 and Note 7, the Company was required to adopt SFAS No. 106 as of August 2, 1992.

The following table sets forth the combined financial status of postretirement benefits other than pensions in the Company's consolidated balance sheet at December 31, 1992:

Accumulated postretirement benefit obligation:	
Retirees	$20,118
Fully eligible active plan participants	7,052
Other active plan participants	10,359
Total	37,529
Plan assets at fair value	—
Accumulated postretirement benefit obligation in excess of plan assets	37,529
Unrecognized net (gain) loss	55
Accrued postretirement benefit obligation	$37,474

Net periodic postretirement benefit cost for the five months ended December 31, 1992, includes the following components:

Service cost-benefits earned during the period	$ 480
Interest cost on the projected benefit obligation	1,165
Net periodic postretirement benefit cost	$1,645

For measurement purposes, an 18.0% annual rate of increase in the cost of health care benefits for pre-age 65 retirees and 14.0% for post-age 65 retirees was assumed for calendar 1992. The rates are assumed to decrease gradually to 8.0% in the year 2002 for pre-age 65 retirees and to 7.0% in 1999 for post-age 65 retirees and remain at those levels thereafter. The health care cost trend rate assumption has an effect on amounts reported. For example, increasing the health care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1992, by approximately $3,200 and the net periodic cost by $200 for the year.

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The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.75%.

Postretirement health care and life insurance expense for fiscal years 1992 and 1991 was $464 and $573, respectively.

16. *Lease Commitments*

Substantially all of the Company's retail outlets and certain other real properties and equipment are operated under lease agreements expiring at various dates through the year 2004. Leases covering retail outlets and equipment generally require, in addition to stated minimums, contingent rentals based on retail sales and equipment usage. Generally, the leases provide for renewal for various periods at stipulated rates.

Rental expense under operating leases was as follows:

	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992	YEAR ENDED FEBRUARY 23, 1991
Basic rentals	$11,399	$12,085	$31,861	$33,710
Contingent rentals	4,113	4,339	8,367	10,931
	15,512	16,424	40,228	44,641
Less: sublease rentals	386	387	479	610
	$15,126	$16,037	$39,749	$44,031

Future minimum lease payments under operating leases, reduced by minimum rentals from subleases of $1,116 at December 31, 1992, aggregate $102,866. Annual payments under operating leases are $23,981, $20,300, $16,595, $13,836 and $9,260 for 1993 through 1997, respectively.

17. *Fair Value of Financial Instruments*

Cash, Short-Term Investments, Receivables, Accounts Payable and Accrued Expenses

The carrying amounts approximate fair value because of the short maturity of these financial instruments.

Long-Term Debt

The fair values of the following long-term debt instruments are based on quoted market prices as determined through discussions with various market participants, where available.

	DECEMBER 31, 1992	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE
10.0% secured notes due 2001	$109,199	$107,015
9.0% secured notes due 2004	155,636	141,629
8.5% secured notes due 1997	11,208	9,863
Secured term loan	302,238	302,238

The Secured Term Loan from a group of banks represents financing for which no market prices are quoted. The Company considers the estimated fair value of such debt to be the same as its carrying value since the obligations were entered into as of the Plan's effective date (August 3, 1992), and no significant interest rate fluctuations have occurred since that date.

The ILGWU Fund Note, Industrial Revenue Bonds and Federal Tax Obligation are considered special purpose financing for settlement of certain pre-petition claims and as an incentive to acquire specific real estate. Accordingly, the Company believes the carrying amounts approximate fair value given the circumstances under which such financing was acquired.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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18. *Litigation*

Notwithstanding the confirmation and effectiveness of the Plan, the Court continues to have jurisdiction, among other things, to resolve disputed pre-petition claims against the Company, to resolve matters related to the assumption, assumption and assignment, or rejection of executory contracts pursuant to the Plan, and to resolve other matters that may arise in connection with or related to the Plan. Pursuant to the Plan, and based on the face amount of the claims involved, the Company, on the effective date, provided for the payment of approximately $9,000 in respect of certain claims still to be resolved. The funds were placed in a Disputed Claims Trust. Since those unresolved claims were funded at their face amounts, the Company has no further financial exposure with respect to those claims, and the Company may realize a recovery from the Trust if those claims are settled for lesser amounts. A limited number of unresolved claims were not funded through the Disputed Claims Trust due to their small face amounts. Amounts allowed, if any, on these claims will be paid by the Company. The maximum financial exposure on these unfunded claims is not material.

On January 24, 1991, the Company filed an action in the United States District Court for the Eastern District of Missouri against the Federal Insurance Company (Federal) alleging that Federal failed to pay the total amount of the settlement and the legal fees, expenses and costs of defending and settling the shareholder class actions filed in fiscal 1989 against the Company and its directors. In the suit, the Company seeks compensatory damages in excess of $15,000 plus prejudgment interest thereon, statutory penalties, punitive damages, attorney's fees and costs. After the suit was filed, The Chubb Corporation and Chubb and Son, Inc. were added as defendant parties.

Under the Plan, 100% of the after-tax proceeds ultimately received by the Company from the litigation described in the prior paragraph will be distributed to certain holders of pre-petition debentures.

The Company is or may become a defendant in a number of pending or threatened legal proceedings in the ordinary course of business. In the opinion of management, the ultimate liability, if any, of the Company from all such proceedings will not have a material adverse effect upon the consolidated financial position of the Company and its subsidiaries.

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19. *Business Segment Information*

The Company's two business segments are furniture and footwear. Information, on an unaudited basis, relating to the operating companies and their products, which constitute each segment, is included on pages six through fifteen of this report. Summarized financial information by business segment is as follows:

	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992	YEAR ENDED FEBRUARY 29, 1992	YEAR ENDED FEBRUARY 23, 1991
Net sales:				
Furniture segment	$394,873	$356,705	$ 819,359	$ 786,556
Footwear segment	267,401	246,868	652,386	652,690
Total	$662,274	$603,573	$1,471,745	$1,439,246
Earnings before interest expense, income taxes, depreciation and amortization and other income (expense), net:				
Furniture segment	$ 49,263	$ 34,135	$ 88,362	$ 90,910
Footwear segment	23,881	11,764	41,715	19,363
	73,144	45,899	130,077	110,273
Corporate administration	(3,638)	(3,770)	(8,542)	(9,460)
Miscellaneous expenses	(870)	(2,313)	(2,308)	(3,739)
Restructuring expenses	—	—	—	(21,249)
Subtotal	68,636	39,816	119,227	75,825
Depreciation and amortization:				
Furniture segment	(13,964)	(8,027)	(18,363)	(18,421)
Footwear segment	(325)	(5,120)	(13,633)	(14,825)
Corporate administration	594	(83)	(226)	(451)
Interest expense	(23,967)	(36,898)	(106,199)	(259,495)
Other income (expense), net and reorganization items	4,902	145,668	(25,718)	1,885
Earnings (loss) before income tax expense (benefit), discontinued operations, extraordinary item and cumulative effect of a change in accounting principle	$ 35,876	$135,356	$ (44,912)	$ (215,482)
Capital expenditures:				
Furniture segment	$ 8,840	$ 7,008	$ 20,075	$ 14,177
Footwear segment	4,087	3,058	8,269	5,264

	DECEMBER 31, 1992	FEBRUARY 29, 1992
Identifiable assets:		
Furniture segment	$ 800,176	$ 432,437
Footwear segment	296,267	440,976
Corporate administration	81,094	376,670
	$1,177,537	$1,250,083

Substantially all of the Company's sales are made to unaffiliated customers. The Company has a diversified customer base with no one customer accounting for 10% or more of consolidated sales and no particular concentration of credit risk in one economic section. Foreign operations are not material.

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As discussed in Note 2, the Company adjusted its assets to fair value in connection with the adoption of fresh-start reporting. These adjustments were impacted by the requirement to state each operating company's total assets at its reorganization value. As a result, the depreciation and amortization expense after August 2, 1992, for each segment is not comparable to prior periods. Without such fresh-start reporting adjustments, the depreciation and amortization for the five months ended December 31, 1992, would have approximated the levels reported for the five months ended August 2, 1992.

Identifiable assets are those used by each segment in its operations. Corporate administration assets consist primarily of cash, short-term investments and miscellaneous real estate held for sale.

20. *Quarterly Financial Information (Unaudited)*

Following is a summary of unaudited quarterly information:

			SECOND QUARTER		
	FOURTH QUARTER (ONE MONTH)	THIRD QUARTER	AUGUST 31, 1992 (ONE MONTH)	AUGUST 2, 1992 (TWO MONTHS)	FIRST QUARTER
Ten months ended December 31, 1992:					
Net sales	$119,502	$401,817	$140,955	$ 239,620	$ 363,953
Gross profit	40,461	131,976	47,191	70,967	117,576
Net earnings (loss) before discontinued operations, extraordinary item and cumulative effect of accounting change	3,005	11,966	6,355	143,194	(6,794)
Discontinued operations	—	—	—	—	—
Extraordinary item	—	—	—	1,075,466	—
Cumulative effect of accounting change	—	—	—	(25,544)	—
Net earnings (loss)	$ 3,005	$ 11,966	$ 6,355	$1,193,116	$ (6,794)
Earnings (loss) per common share:					
Net earnings (loss) before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 0.06	$ 0.24	$ 0.13	$ 3.70	$ (0.18)
Discontinued operations	—	—	—	—	—
Extraordinary item	—	—	—	27.72	—
Cumulative effect of accounting change	—	—	—	(0.66)	—
Net earnings (loss)	$ 0.06	$ 0.24	$ 0.13	$ 30.76	$ (0.18)
Common stock price range (High-Low)	$9 3/8 - 8 3/8	$ 9 - 6 3/4	$ 8 5/8 - 7	$ 1/8 - 1/16	$ 13/64 - 5/64

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	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
Year ended February 29, 1992:				
Net sales	$373,167	$392,173	$356,903	$ 349,502
Gross profit	119,230	127,066	114,840	112,255
Net earnings (loss) before discontinued operations	(12,760)	(7,076)	(12,705)	(16,028)
Discontinued operations	(138)	50	(121)	(114)
Net earnings (loss)	$ (12,898)	$ (7,026)	$ (12,826)	$ (16,142)
Earnings (loss) per common share:				
Net earnings (loss) before discontinued operations	$ (0.33)	$ (0.18)	$ (0.33)	$ (0.41)
Discontinued operations	—	—	—	(0.01)
Net earnings (loss)	$ (0.33)	$ (0.18)	$ (0.33)	$ (0.42)
Common stock price range (High-Low)	$ 1 - 1/16	$ 5/16 - 7/32	$ 11/32 - 3/16	$ 15/16 - 11/16

The Company has not paid dividends on its common stock during the two periods ended December 31, 1992 and February 29, 1992. The closing market price of the Company's common stock on December 31, 1992 was $9.375 per share.

As a result of changing its fiscal year, the Company's fourth quarter ended December 31, 1992, includes only one month of operations. As a result of adopting fresh-start reporting, the Company's second quarter in calendar 1992 includes two periods—June 1, 1992 through August 2, 1992, and August 3, 1992 through August 31, 1992. Operating results after August 2, 1992, are presented on a different cost basis and reflect the adoption of SFAS No. 106 and No. 109.

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The Board of Directors
and Shareholders
INTERCO INCORPORATED:

We have audited the accompanying consolidated balance sheets of INTERCO INCORPORATED and subsidiaries as of December 31, 1992 and February 29, 1992, and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for the five months ended December 31, 1992, five months ended August 2, 1992, and years ended February 29, 1992 and February 23, 1991. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of INTERCO INCORPORATED and subsidiaries at December 31, 1992 and February 29, 1992, and the results of their operations and their cash flows for the five months ended December 31, 1992, five months ended August 2, 1992, and years ended February 29, 1992 and February 23, 1991 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, effective August 2, 1992, INTERCO INCORPORATED was required to adopt "fresh-start" reporting principles in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." As a result, the financial statements for the period subsequent to the adoption of fresh-start reporting are presented on a different cost basis than that for prior periods and, therefore, are not comparable.

As discussed in Notes 2, 7 and 14 to the consolidated financial statements, the company changed its method of accounting for income taxes in calendar year 1992 to adopt the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." As discussed in Notes 2, 7 and 15 to the consolidated financial statements, the company also adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions" in calendar year 1992.

KPMG Peat Marwick

St. Louis, Missouri
February 11, 1993

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(Dollars in thousands except per share data)	FIVE MONTHS ENDED[1]		FISCAL YEARS ENDED			
	DEC. 31, 1992	AUG. 2, 1992	FEB. 29, 1992	FEB. 23, 1991	FEB. 24, 1990	FEB. 25, 1989
Summary of Operations:						
Net sales	$ 662,274	$ 603,573	$ 1,471,745	$ 1,439,246	$ 1,656,079	$ 2,011,962
Cost of sales	442,646	415,030	998,354	992,209	1,102,572	1,338,693
Interest expense	23,967	36,898	106,199	259,495	303,123	141,735
Earnings (loss) before income tax expense (benefit), discontinued operations, extraordinary item and cumulative effect of accounting change	35,876	135,356	(44,912)	(215,482)	(63,580)	12,680
Income tax expense (benefit)	14,550	(1,044)	3,657	(64,108)	(9,752)	18,738
Earnings (loss) before discontinued operations, extraordinary item and cumulative effect of accounting change	21,326	136,400	(48,569)	(151,374)	(53,828)	(6,058)
Discontinued operations	—	—	(323)	(24,962)	86,082	74,432
Extraordinary item	—	1,075,466	—	—	—	—
Cumulative effect of accounting change	—	(25,544)	—	—	—	—
Net earnings (loss) applicable to common stock	$ 21,326	$1,186,322	$ (48,892)[2]	$ (272,097)	$ (51,584)	$ 56,590
Per share of common stock:						
Earnings (loss) before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 0.43	$ 3.52	$ (1.25)[2]	$ (6.38)	$ (3.57)	$ (0.49)
Discontinued operations	—	—	(0.01)[2]	(0.65)	2.23	2.05
Extraordinary item	—	27.72	—	—	—	—
Cumulative effect of accounting change	—	(0.66)	—	—	—	—
Net earnings (loss) applicable to common stock	$ 0.43	$ 30.58	$ (1.26)[2]	$ (7.03)	$ (1.34)	$ 1.56
Cash dividends	$ —	$ —	$ —	$ —	$ —	$ 39.49
Securities dividends	$ —	$ —	$ —	$ —	$ —	$ 27.45
Average common and common equivalent shares outstanding (in thousands)	50,000	38,796	38,731	38,720	38,585	36,348
Cash dividends paid:						
Common stock	$ —	$ —	$ —	$ —	$ —	$1,454,218
Preferred stock	$ —	$ —	$ —	$ —	$ —	$ 1,944
Other Information:						
Working capital	$ 503,875	$ 518,983	$ 708,706[4]	$ 719,738[4]	$(1,242,776)[5]	$ 469,543
Property, plant and equipment, net	202,285	203,904[3]	165,633	172,112	186,919	327,070
Capital expenditures	12,936	10,099	28,369	19,612	29,663	53,829
Total assets	1,177,537	1,202,316	1,250,083	1,145,562	1,161,230	1,793,236
Long-term debt	585,968	635,721	—[4]	—[4]	3,176[5]	1,178,180
Debentures	—	—	—[4]	—[4]	—[5]	808,657
Liabilities subject to compromise	—	—	2,165,311[4]	2,137,658[4]	—	—
Shareholders' equity (deficit)	$ 293,114	$ 275,400	$(1,186,522)	$(1,135,211)	$ (958,958)	$ (995,187)

[1] As discussed in Notes 2 and 3 to the Consolidated Financial Statements, the Company changed its fiscal year to end on December 31. As also discussed in Note 2, the Company's adoption of fresh-start reporting requires reporting calendar 1992 results in two 22 week periods.

[2] As discussed in Note 2 to the Consolidated Financial Statements, the Company stopped providing for preferred dividend requirements in fiscal 1992.

[3] As discussed in Note 2 to the Consolidated Financial Statements, in connection with the adoption of fresh-start reporting, property, plant and equipment was adjusted to fair value resulting in an increase of approximately $42,400 as of August 2, 1992.

[4] $1,055,132 and $1,007,882 of long-term debt are reflected as liabilities subject to compromise as of February 29, 1992 and February 23, 1991, respectively, and $965,507 of debentures are reflected as liabilities subject to compromise at the end of fiscal 1992 and fiscal 1991.

[5] $600,536 of long-term debt and $885,265 of debentures were reclassified as current liabilities as of February 24, 1990.

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Board of Directors

Leon D. Black
Officer of Apollo Capital Management, Inc.

Craig M. Cogut 3
Officer of Apollo Capital Management, Inc.

Robert H. Falk
Officer of Apollo Capital Management, Inc.

Michael S. Gross 1*, 3, 4*
Officer of Apollo Capital Management, Inc.

John J. Hannan 1
Officer of Apollo Capital Management, Inc.

Bruce A. Karsh 3, 4
Managing Director of Trust Company of the West

John H. Kissick 3
Officer of Lion Capital Management, Inc.

Donald E. Lasater 2, 3*, 4
Retired Chairman of the Board and Chief Executive Officer of Mercantile Bancorporation Inc.

Lee M. Liberman 2*
Chairman of the Board of Laclede Gas Company

Richard B. Loynd 1
Chairman of the Board, President and Chief Executive Officer of the Company

Matthew J. Morahan 2
Managing Director of PaineWebber Incorporated

Eric B. Siegel
Officer of Apollo Capital Management, Inc.

Basil Vasiliou 4
Chairman of the Board of Vasiliou & Co., Inc.

Committees of the Board

1. Executive Committee
2. Audit Committee
3. Executive Compensation and Stock Option Committee
4. Litigation Committee

(* indicates Committee Chairman)

Corporate Officers

Richard B. Loynd
Chairman of the Board, President and Chief Executive Officer

Eugene F. Smith
Executive Vice-President and Chief Financial Officer

Ronald J. Mueller
Vice-President

David P. Howard
Vice-President and Controller

Duane A. Patterson
Vice-President and Secretary

Robert T. Hensley, Jr.
Treasurer

Lynn Chipperfield
General Counsel and Assistant Secretary

James K. Pendleton
Assistant Secretary

William R. Withrow
Assistant Treasurer

Presidents of Operating Companies

Brent B. Kincaid
Broyhill Furniture Industries, Inc.

K. Scott Tyler, Jr.
The Lane Company, Incorporated

Ronald J. Mueller
The Florsheim Shoe Company

Gilbert Ford
Converse Inc.

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Transfer Agents and Registrars for Common Stock

Society National Bank
One Mercantile Center, Suite 2120
St. Louis, Missouri 63101
(314) 241-4002

First Chicago Trust Company of New York
30 West Broadway
New York, New York 10001-2192
(212) 587-6434

Exchange Listing

Common shares are listed on the New York Stock Exchange (trading symbol: ISS).

Trustees, Registrars and Paying Agents for Secured Notes

10.0% Secured Notes due 2001
8.5% Secured Notes due 1997

Shawmut Bank Connecticut, N.A.
777 Main Street, MSN 238
Hartford, Connecticut 06115
(203) 728-2000

9.0% Secured Notes due 2004

BankAmerica National Trust Company
2 Rector Street
New York, New York 10006
(212) 978-5022

Corporate Offices

101 South Hanley Road
St. Louis, Missouri 63105-3493
(314) 863-1100

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Wednesday, May 5, 1993, at the Rihga Royal Hotel, 151 West 54th Street, New York, New York. Notice of the meeting and a proxy statement will be sent to shareholders in a separate mailing.

Form 10-K Annual Report

Shareholders may obtain a copy of the current Form 10-K filed with the Securities and Exchange Commission by writing to the Treasurer of INTERCO at the Corporate Offices.

Independent Auditors

KPMG Peat Marwick
1010 Market Street
St. Louis, Missouri 63101
(314) 444-1400

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INTERCO INCORPORATED

St. Louis, Missouri

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